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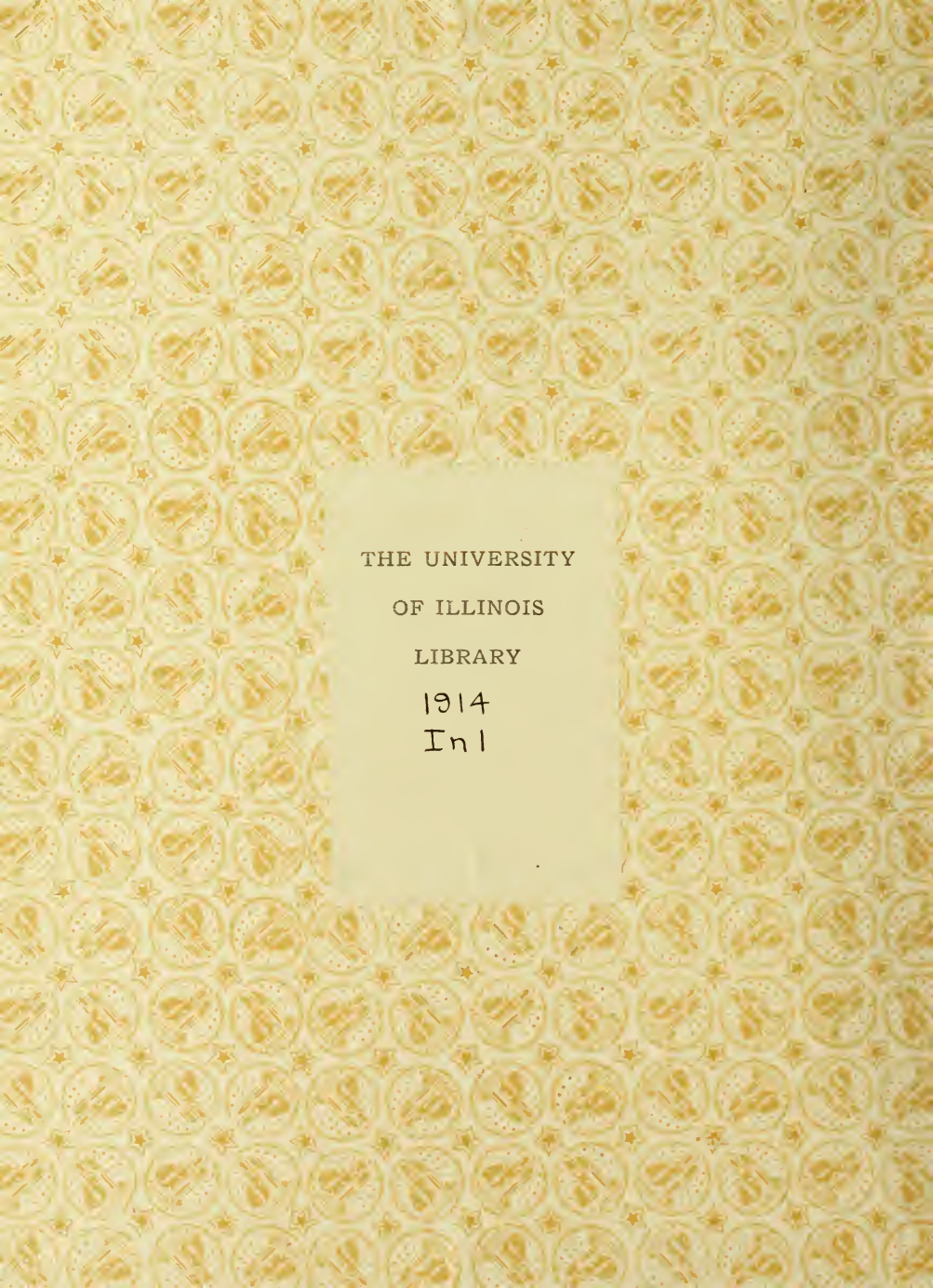
Development of Japanese Foreign Trade

(1868-1913)

Economics

A. M.

1914



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DEVELOPMENT OF JAPANESE FOREIGN TRADE
(1868-1913)

BY

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A. B. University of Illinois
1914

THESIS

Submitted in Partial Fulfillment of the Requirements for the

Degree of

MASTER OF ARTS

IN ECONOMICS

IN

THE GRADUATE SCHOOL

OF THE

UNIVERSITY OF ILLINOIS

1914


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PRELIMINARY REMARKS.

England's traders believed by 1870, that her new customers in the Far East were worth next to nothing. Until the China-Japanese war of 1894 all the United States consular reports from Japan were directed toward the problem "How to open up the Japanese markets for the United States manufactures." By 1900, or just preceding the Russo-Japanese war, the West began to gaze, through dim light and in suspicion of their own eye sight, at the smallest speck of sign of a new industrial and commercial power rising on the far Eastern horizon. To day the nations of the world begin to admit the possibility of a great industrial and commercial future for Japan, and some what in disdain, recognize Japan as their new rival in Eastern markets and those of on the Pacific Ocean.

Upon this subject, in the last twenty years, upwards of 200 articles have been printed in popular and scientific English periodicals, and many books have been written, but few give us unbiased up-to-date scientific information.

The purpose of this thesis is to attempt to bring out the industrial and commercial development of Japan since 1868, with special emphasis on the decade after the conclusion of peace between Russia and Japan in 1905.

CHAPTER I.

PRELIMINARY SURVEY OF COMMERCIAL JAPAN.

Section 1.

Japan's Early Relation with Foreign Countries.

Although this thesis is mainly concerned with the commerce of Japan since 1868, it is perhaps worth while to review briefly the commercial activity of old Japan, in order to appreciate better the development and activity of the new era.

For the sake of convenience, we can divide the history of Japanese commerce, somewhat arbitrarily, into three main periods.

The foreign trade of Japan between 157 B.C. and 1542 A.D., was monopolized by the theocratical government; regulation of markets as well as the encouragement and promotion of foreign trade was being exercised by the government.¹ The Koreans and Chinese were freely admitted and special entertainment was given to them, though after the Mongolian invasion in 1281, the intimacy of the relation was greatly eclipsed, because of Japanese fear for national existence.¹ It was also in the latter part of this period that the free trade policy was adopted by the Japanese for the first time.²

The second period opening with the discovery of Japan

- 1) Dyer, "Dai Nippon" page 219; - Kinoshita, "Past and Present of Japanese Commerce" page 41, 38, 32, 34, 46. Nitobe, "Intercourse between Japan and America" pages 3-4; Dyer, "Dai Nippon" page 219
 2) ~~ibid page 36~~ Kinoshita, "Past and Present of Japanese Commerce" page 36.

by Europeans in 1542, runs to 1641. This was the golden period of Japanese foreign trade in the olden times. All the world's commercial nations participated in it. The land of Mikado was left open to all out-siders, by granting them the privilege of free trade and due protection to life and property. ¹ Moreover, citizens of Japan travelled to all corners of then known world. They settled in all parts of the Orient, for commercial purposes. The government was eager to establish a merchant marine and trading companies. ¹ Under such circumstances the prospect of developing Japanese foreign trade was not questioned, but the sudden issue of the proclamation to shut out all foreigners. ² gave a death blow to the commercial activity of old Japan.

The third period is characterized by the close door policy, which lasted from 1641 to the birth of new Japan in 1868. The fear of foreign invasion, the exhaustion of precious metals, the fixing of prices and tariffs on imported goods; the establishment of the custom house, and the restriction of the annual amount of importation stamped out the great expectations of Japan to build up a commercial sea power in the East. ³

- 1) S.G. Wishida, "International Position of Japan as a Great Power" pages 83, 97.; Murdoch and Yamagata, "A History of Japan" pages 470, 479-85; Hakulyt, "Memorial of the Empire of Japon" page 153; Kinoshita, "Past and Present of Japanese Commerce" pages 66-7, Steichen "Christian Daymyo" page 255; Nitobe, "Intercourse between Japan and America" pages 16, 18, 14; Morga, "Philippine Islands" page 341; Japanese Government, "Commerce and Industry of Japan" page 77;
- 2) Perry, "Gist of Japan" page 157
- 3) Murdoch and Yamagata, "A History of Japan" page 676; Kampf, "History of Japan" page 221, 227-34, 250-3.; Kinoshita, "Past and Present of Japanese Commerce" page 81; Japanese Government, "Commerce and Industry of Japan" page 78-80; Hakulyt, "Memorials of Empire of Japan" page 31.

Dutch traders, who were the only ones permitted to take part in Japanese foreign trade brought news of the industrial revolution in England and her rising sea power, and thus must have inspired the enterprising Nipponese, for many of them violated the laws in their efforts to expand Japanese commerce.

to prove
 Contary to common belief, no evidence can be found¹ that the nation had hermit propencities nor that the Japanese were anti-Christian, or anti-European. Nobnaga's praise of Father Froez, Hideyoshi's promise of Christianization of Japan, and Iyeyasu's liking of William Adams are examples among many that show evidence of cosmopolitan spirit, in the far Eastern islands, as far back as the sixteenth century.¹

However, with great regret, Japan had to order missionaries as well as merchants to withdraw from the island, when and only when, the national welfare was endangered by their disorderly acts.² In truth, Japan was compelled to adopt the "close-door" policy for the preservation and development of the national state, - a thing which the Teutonic nations of Europe were at that time struggling to secure against the opposition of the Catholic Empire. In other words, the West used force to obtain independent national organization, while Japan sought, to preserve her sovereignty by the peaceful means of declaring her isolation.

1) Murdoch and Yamagata, "A History of Japan" page 154; 215. Steichen "Christain Daymyo" page 254-5.

2) Okuma, "Fifty years of Japan" page 173 vol. I

But some might say that Japan's fear of Spanish invasion was simply a sort of nightmare and laugh at the policy, accusing Japan of adopting unnecessary measures. But if the Spanish Armada had not been destroyed in the English channel, and if Phillip II and his successor could have maintained their supreme power over the world, Japan might have been a victim of Spain, as it was the purpose of Pope Nicholas V and of the Christendom of the age to "Attack and subjugate all the infidels, to reduce all their inhabitants to slavery and to seize all their properties."¹

Japan, however, did not shut her door, simply because of fear of Spanish invasion, but also because of the territorial greed and imperialism of Christian nations, the effect of which is to be seen in the devastating religious wars between Catholic and Protestant believers in the West. Iyeyasu, who declared the close door policy, emphasized this fact by saying that "religious rivalry² is detrimental to the welfare and tranquillity of a nation."

At any rate, the consensus of opinion among students of the problem seems to be that the break in commercial relations between Japan and Europe was against the cherished desire of the Japanese nation. But the policy that they adopted was not to harm any nations, unless it was from the social and economic standpoint; and let the sociologist decide if there is any reason why one should be careless of his own welfare in order to keep up

1) Living Age 1900, "Old and New Japan"

2) Murdoch and Yamagata, "A History of Japan" pages 298.

social connection with his neighbors.

The shutting out policy of old Japan was maintained for only two out of the twenty-six centuries of her history, and during that seclusion, "the country enjoyed the blessing of peace and contentedness. They did not care for any commerce or communication with foreign nations: because such was the happy state of their country that they could subsist without it."¹

1) Kampfer, "History of Japan" page

2) For further information for this section see the thesis "History of Foreign trade of Japan to 1868 A.D., by Nobtaro Inagaki, for the degree of 'Bachelor of Arts' in Business Administration, College of Literature and Arts, University of Illinois, 1913.

Section 2.

Transition from Old to New Japan

There was much talk in the West of conquering Japan, and some rumors of Russian attempts to defend upon the islands of Nippon were heard in England. ¹ But to quote the admirable ² summary of Professor Porter," it was fortunate for Japan that the third quarter of the nineteenth century was marked by ~~by~~ unusual unrest. The United States had drifted into a civil war that absorbed all the attention of the administration; Europe had hardly recovered ~~from~~ from the revolutionary disturbances of 1848 before she was torn by the series of struggles which led up to the union of Italy and the Union of Germany; Russia, occupied in the Crimea, could not display much enterprise on her Eastern frontier Asia was a prey to agitation; on the one side India was striving to rid herself of her British masters, on the other the Tai-pais were rebelling against the government of China." In such a state of universal unrest it was only for the sake of commerce that the Western nations tried to open up trade with the Far East.

Although to conquer Japan was not, therefore, the intent of the Western Powers, but still they felt it necessary to put pressures upon the nation, by show of force, lest the people would refuse to open up the country for the outside world. The policy thus adopted was effective and Japan yielded ~~herself~~ to the demand of the West.

1) Hakluyt, "Memorials of the Empire of Japan" page XXXVII

2) Porter, "Full Recognition of Japan" page 67

Under such compulsion, Japan entered into treaty relations with Western nations without being aware that in many cases she was taking steps perilous to the material welfare of the country and even subversive of her independence. The nature of the tariff schedules and regulations of these treaties may be seen from the following extract of the treaty between the United States and Japan.

Duties shall be paid to the Japanese government on all goods landed in the country, according to the following tariff:

Class I. All articles in this class shall be free of duty, Gold, silver; wearing apparel in actual use; household furniture and printed books not intended for sale, but property of persons who come to Japan to reside.

Class II. A duty of five percent shall be paid on the following articles; all articles used for the purpose of building, rigging, repainting or fitting out of ships; whaling gear of all kinds; salted provisions of all kinds; bread and bread stuffs; living animals of all kinds; coal; timbers of all kinds for building houses; rice paddy; steam machinery; zinc; lead; tin; and raw silk.

Class III. A duty of thirty percent shall be paid on all intoxicating liquors, whether prepared by distillation, fermentation, or in any other manner.

Class IV. All goods not included in any of the foregoing classes shall pay a duty of twenty percent.

Having thus surrendered, or rather been deprived, of its tariff autonomy the nation found itself helpless to protect its industries against the competition of Western skill and capital, and many important home industries were deranged to an irreparable extent. Keenly alive to the situation the Japanese government

- 1) Porter, " Full Recognition of Japan" page 14
- 2) " Treaties and Conventions between the United States and other Powers" page 516. Commercial treaties similar to this were concluded between various commercial nations of both Occident and Orient, also with Mexico between 1854 and 1888.
- 3) Porter, " Full Recognition of Japan" page 14

repeatedly petitioned the Powers for the removal of the onerous and humiliating provisions of the treaties, but always in vain,¹ except once in 1866, when a reduction of duties was arranged, as follows;²

Articles the duty on which was reduced to five percent: machines and machinery; drugs; and medicines; iron in various forms; tin plate; white sugar; glass and glass-ware; clocks, watches, and watch-chains; wines, malted and spirituous liquors. (This reduction seems, however, to have been secured at the expense of a penalty on Japanese production, as follows)

Articles on which a five percent export duty was laid; include all Japanese products except gold, silver and copper in form of coins or bars.

By ^{the} concluding these treaties Japan gave impetus to the political revolution which preceded the industrial and commercial revolution in ^{the} case of Japan (unlike was the case in England). In 1868, the feudal system was abolished, the Emperor thereby regained the sovereign power, ^{of} which he had been dispossessed for more than seven hundred years. In 1881, an Imperial ordinance established the representative system of government, and in 1889, the Emperor granted a constitution to his people in which without surrendering the supreme authority, he delegated a part of his powers to a Diet, composed of two Chambers.

The modernizing of Japan did not reach flood tide until after the China-Japanese war of 1894-5. The new treaties of July 1896, with the Western nations really mark a new epoch in the history

1) Porter, "Full Recognition of Japan" page 14

2) Treaties and Conventions between The U.S. and Other Powers" page 1013, Vol. I 1910.

of Japan. These new treaties were to supplant the old; they abolished extra-territorial jurisdiction, opened up the entire territory of Japan to foreigners, and gained for Japan the power of independent tariff revision. On the fourth of August, 1899, the date on which these new treaties were to become operative, Japan was lifted up to a position of equality in international law, and from that stand point of view, this date may be said to mark the end of the period of transition from old to new Japan.

Section 3.

1

Physiography of Japan.

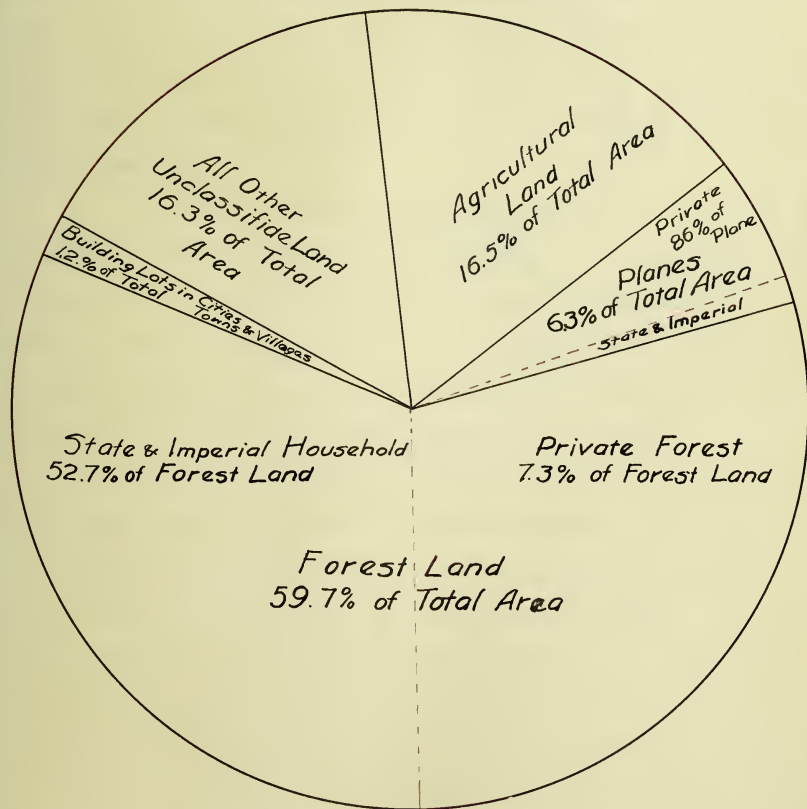
The island empire of Japan stretches^{ed} along the coast of the continent of Asia for about 1220 miles. Her northeastern islands extend to within 200 miles of the Aleutian islands of Alaska and the Southwestern ones are as near as 500 miles to the Philippines. Her total length of coast line is about 18,000 miles; more than 10,000 miles bordering on the Pacific and about 3000 miles on the sea of Japan.

The country of Japan consists of about 3000 islands; they are not all of volcanic origin, though many of them are. The total area of these islands is about 147,000 square miles and its classification may be seen in the accompanying diagram.

The climate of Japan in general, is moderate owing to the influence of Japanese current; though one extreme of the country lies within the tropics and the other experiences the rigors of Arctic cold. By way of summary it may be said that "earth-quake, seismic-waves, and an excessively^w humid climate have contributed, in no small degree, towards giving Japan its characteristic physical features."

DAIGRAM No.1

CLASSIFIED LAND AREA
of
JAPAN 1912
147,450 Sq. Miles



Chapter II.

Expansion of Foreign Commerce.

Section 1.

Amount.

In 1871, English traders thought that Japan was hardly worth trading with. This prophesy was correct so far as the volume of trade was concerned, for during the next fifteen years there was scarcely any indication of development in commerce. But in the next decade the amount of trade grew from 60 million yen of 1884 to 230 million yen in 1893, an increase of about four hundred percent.

The year 1894, is the most important year in the history of new Japan and her commercial expansion. The war with China resulted in a complete victory for Japan, without crippling her foreign trade in the least. On the contrary the foreign commerce of Japan expanded by leaps and bounds, and in the next five years its amount was more than doubled over that of 1893.

The war indemnity of 230,000,000 taels made possible the change from a "de facto" silver standard to a gold standard. This change was much desired because an escape was needed from the bad effects of fluctuations in the price of silver. This change in the standard of money was however, but one of a number of internal developments and enterprises of the victorious nation. For the value of foreign trade grew from 380 million yen in 1897 to 690 million yen in 1904, an increase of over 80 percent in seven years. The growth was due to the increase in importation of raw cotton, metals and machinery, and foodstuffs, on one hand, and increased

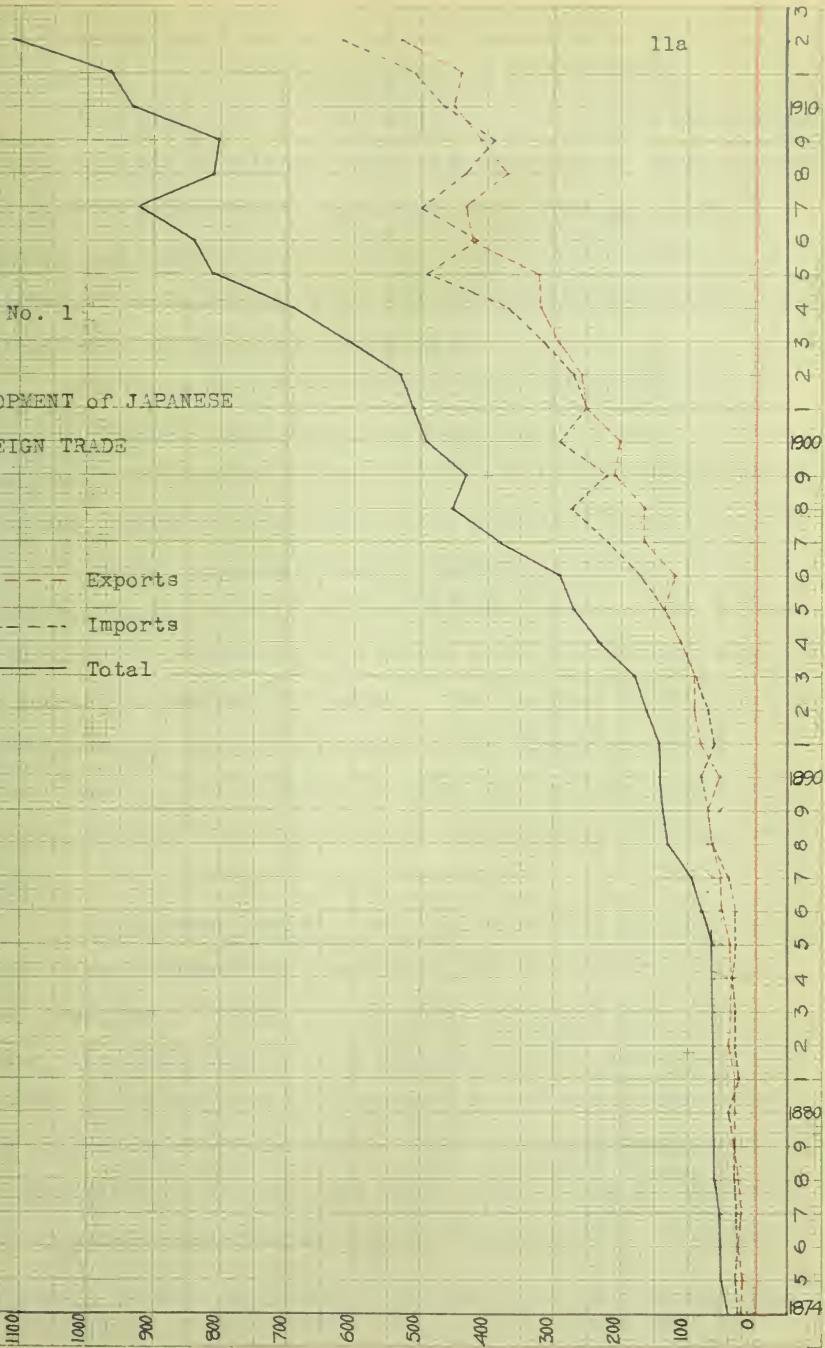
1) Griffis, The Chautanguan. Nov. 1896 Vol. 24 page 201.

CHART No. 1

DEVELOPMENT of JAPANESE
FOREIGN TRADE

- - - Exports
- - - Imports
- Total

1200 Million Yen



exportation of silk and manufactured goods on the other.

The year 1904 was the occasion of her desperate struggle with Russia on the Manchurian plains and far Eastern seas: millions of men skilled and unskilled were drawn away from agricultural, commercial and industrial activities. Yet Japan proved her efficiency as an industrial nation by maintaining the position she had attained, in spite of the titanic war.

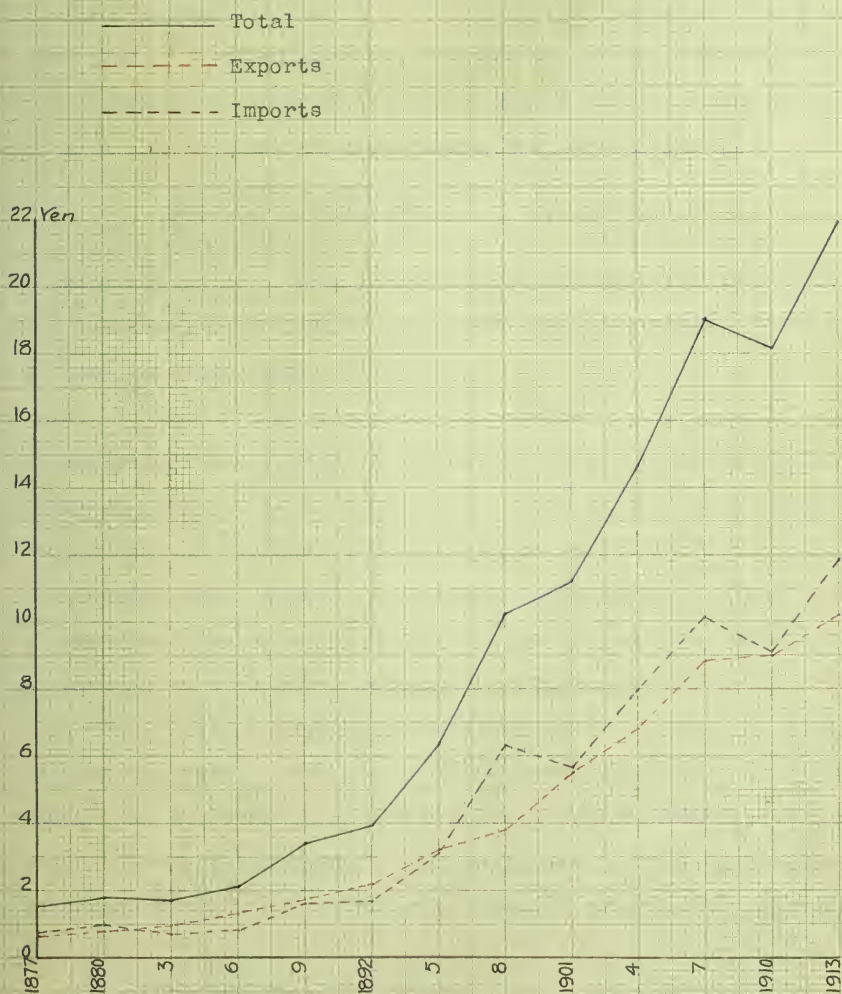
In the next eight years, ending in 1912, percentage of increase in foreign trade was about 60, rising from 690 to 1100 million yen. The growth of this period was in the same lines as that of the preceding decade, namely the increased importation of raw cotton, metals and machinery, and foodstuffs, together with increased exportation of silk and manufactured goods. The sudden decline of trade in 1908 was due to the effect of the panic of 1907 which started in the United States. The frequent fluctuation of importation since 1898 has been due to the irregular growth of industry shown in the purchases of machinery and raw cotton, and to the importation of foodstuffs made necessary by crop failures at home.

Considering Japan's long seclusion from the world's commercial and intellectual intercourse, and the scantiness of her natural resources, on which an increasing population has been pressing, the development of the Japanese foreign trade in the forty-five years reign of the late Emperor Mutsuhito, must impress one as little short of marvelous. Thus the advancement was made under conditions of virtual free trade, forced upon the Japanese nation by foreign powers under conventional tariff¹. But, such a

1) Expansion of foreign trade may be seen also from the stand point of individual or per capita share, on the Chart No. 2.

CHART No. 2

PER CAPITA of JAPANESE FOREIGN TRADE



critic as Mr. Charles V. Sale of the Royal Statistical Society of London,¹ suggests caution in estimating the economic progress of Japan in term of money values, because of the change in the currency system from bimetallism in principle but silver standard in practice, which prevailed until 1896, to the gold standard adopted in that year. According to his culculation, taking the year 1887 as the standard and considering its value as 100, the increase by 1908 in three items, taken in the average, was as follows;

Taxes and stamp receipts.....	412.
Principle foodstuffs.....	276.
Wages.....	319.

It seems, therefore, that the volume of Japanese foreign trade has not increased over a third as much as the statistics of the value of foreign trade seem to indicate.

Making allowance for the change in the value of maney, it seems that the volume of Japanese foreign trade was about four times as great in 1912 as in 1887. When we go a step farther and examine the volume of foreign trade before 1887, the apparently stationary annual return is extremely misleading. Since the value of money was depreciating during the period 1868 to 1887, as well as during the succeeding periods, the volume of the import trade, in term of units of weight and measure, must have been declining, because the total money value of the imports remained about the same. On the other hand, the volume of export trade, in term of units of weight and measure, must have been increasing, because the total money value of the exports likewise remained practically the same.

1) "Journal of the Royal Statistical Society" April 1911.

Thus while it is difficult to determine whether the total foreign trade was increasing or decreasing ⁷ Before 1887, it is beyond question that both imports and exports have been growing ¹ by leaps and bounds between 1887 and the present time.

Section 2.

Balance of trade.

From 1868 to 1880 the money value of imports and exports shows a slight balance unfavorable to Japan. However, it is possible that if the imports and exports were expressed in terms of commodity units, the balance would have ~~shown to have~~ been much less unfavorable and perhaps actually in favor of Japan. This is explained by the different effect of depreciation of the currency upon import values as compared with export values. ²⁼¹ This is especially true when we consider that the importation of this period consisted mainly of manufactures of gold countries and not of raw materials nor foodstuffs of silver standard nations.

For fifteen years following 1880, in spite of the influence of the declining value of silver Japan as a whole maintained a favorable balance of trade, either viewed from the stand point of the money value or the commodity units. The significance of this balance is greater when considered in terms of units of commodities and gives evidence of the increasing resources and integrity of Japan in promoting her industrial and commercial interests.

Since 1896, however, the balance has been decidedly unfavorable ^{for} towards Japan. The total excess of import over export ^p

- 1) For explanation of the theory of foreign trade as employed above, see appendix A on the page 78

in the seventeen years preceding 1912 amounts to about 800 million yen. The question naturally arises, what caused this? There are five reasons, namely:

- 1) The increased importation of
 - a) foodstuffs, and
 - b) fertilizers to obtain more food from the native soil.
- 2) The increased importation of more luxurious commodities in greater varieties as the material civilization advances, - a tendency which was increased by the change from the silver to the gold standard, which made it possible for natives to obtain Western goods at lower prices.
- 3) The rapidly increasing importation of raw materials to supply native industries, for both home consumption and exportation.
- 4) The importation of iron, steel and other metal manufactures and machinery.
- 5) Improved credit and facilities for negotiating loans from foreign countries, with which to pay for the excess of imports.***

Concerning the importation of foodstuffs Japan must ¹ necessarily accept the verdict of nature (as a necessity). The importation of raw materials is a pleasing sign of the industrial advancement of the country. The importation of Western luxuries as a consequence of adopting the gold standard has been already ¹ considered. A higher tariff has been imposed upon them. But that part of increase due to the advancement of civilization ought not, of course, to be opposed. We are safe in saying, that Japan will be relieved from buying iron and steel in the near ² future. But the importation of machinery and its parts is cer- ³ tain to be continued for some time to come. True, the balance of trade can never be a certain indication of the trade condition

** Treated at greater length in Chapter III, section 1.

1) Porter, "Full Recognition of Japan" page 367.

2) See chapter IV, section 2-c

3) See chapter III, section 4.

of a nation, but in the case of Japan the consideration upon this point must be some what different. Since Japan is a debtor nation having no investments abroad, except some minor ones in her colonial possessions, the interest or dividends comingⁱⁿ from this source must be an insignificant sum. Foreign insurance companies are taking away the premiums each year in sums vastly greater than the premiums paid to native institutions from abroad. The earnings from international water traffic by Japanese ships are balanced by the payment to foreign shipping interests by Japan. In 1912, remittances of Japanese in other countries to their native land¹ were said to have amounted to about 8 million dollars, but the greater part of it was doubtless sent to Japan, by petty Japanese merchants and peddlers in foreign countries for the payment of commodities, which is recorded in the amount of goods exported in the same year. The yearly remittance of Japanese immigrants in² foreign lands could scarcely exceed one million dollars.

1) Daily Consular Report, (U.S.) June, 12, 1913.

2) For most of the Japanese emigrants are settled in three sections of the world; - China, the Hawaiian islands and the United States. Japan can not expect to receive any remittance from her emigrants to China, because of the economic condition of that country. There are 50,000 Japanese in Hawaii and 50,000 more in the United States, from these sources Japan gets remittance from her immigrants. But these two groups of fifty thousand each must be divided approximately into three parts; one third of them are utterly unfitted to save what they earn, another third are ambitious to save, but invest their earnings in their adopted lands; the last third are the ones who save their earnings and take or send them to Japan. The approximate amount from this source should not^{be} an average over six hundred thousand, or at the greatest, a million dollars a year, if we estimate their average annual saving capacity at one hundred and fifty dollars in Hawaii and two hundred and fifty dollars in the United States.

The expenditure of foreign tourists in Japan are in greater part, cancelled by the similar items of expenditure by Japanese commercial, Scientific, and technical investigators and students in the foreign lands.

Thus, The excess of imports over exports amounting to eight hundred million yen between 1896 and 1912 is often regarded as a bad omen for Japan. But when we examine farther, we find that in the same period Japan imported capital goods, namely steel, iron, and machinery, to the amount of over one billion yen for internal improvement as well as for the establishment of modern manufacturing industries. The effect of this is shown in the advancement of national wealth and the development of the intellectual and mechanical skill of the people. If this view is correct, then the one billion yen of expenditure may be regarded as capital investment for future return, and that part of the depreciation of fixed capital in these seventeen years is nothing but the expenditure for training the industrial force, - such training being an intangible investment for sure economic return in the future. For this reason we may conclude this discussion upon the unfavorable balance of trade of Japan by stating that the amount of importation in excess over exportation in the last seventeen years was capital investment in various forms, and should be considered as advantageous to the industrial and commercial development, which is to be discussed in the later chapters.

CHAPTER II.

MECHANISM OF EXPANSION.

Section 1.

*
Monetary Reform.

The slow development of foreign commerce before 1890, as we have seen, was partly due to the fact that the country required some time to adjust itself to the new situation created by sudden reorganization of the whole internal institutional structure, and partly owing to the extreme ^{note} appreciation ⁱⁿ of the value of commodities caused by the disadvantageous monetary standard. There is yet another factor that contributed to the disastrous effect upon the development of foreign trade, directly and indirectly; - the monetary system of Japan.

The gold standard adopted in 1871, at the ratio of one of gold to about sixteen of silver, (according to the Mexican dollars then circulated in the Eastern markets.), soon began to be seriously affected as the ratio between silver and gold fell. The good money ^{was} driven out of the country. In addition to this ^{drainage} of gold coin, the effect of the depreciation of the inconvertible paper money, issued by the government at the restoration and the civil war of 1877, to the amount of 30 million yen, caused the flow of gold specie out of the country.

This disastrous situation on the one hand, and on the

- 1) Okuma, "Fifty Years of New Japan" Vol. I pages 486-533
 2) The U.S. Government, "Commercial Japan" pages 2918-2922
 Japanese Government, "Report on the Post-Bellum Financial Administration in Japan" pages 178-201.
 Japanese Government, "Japan at the Beginning of the 20th. century" pages 538-543 "Political and Economic Organization" pages 41-4

other hand the ^{desire to} inducement for promotion of foreign trade among the silver standard countries in the East, ^{led to} Japan resorted to bi-metallism in 1878.

The evil effect of the currency condition was widely felt in every direction;- the price of commodities rose, out flow of gold from the country continued, and the imports exceeded the exports. To save the country from this threatened situation, the nation made strenuous efforts and succeeded in accomplishing the task in 1885, though the medium of the Bank of Japan, established in that year. The government authorised it to issue convertible paper money on the basis of specie reserves and to redeem the outstanding inconvertible paper money with silver.

Even under such stress and strain of economic conditions owing to the currency system, the foreign trade of Japan was steadily gaining a favorable position, and in 1882 the country began to export more than it imported. The outflow of gold was checked.

The establishment of bi-metallism in 1878 was a step toward the beginning of the practical adoption of the ~~practical~~ silver standard, and by the redemption of the inconvertible paper money with silver, Japan in 1886 completed the system of practical silver monometallism. Though it was an unavoidable outcome under the circumstances, this change from gold monometallism to bi-metallism, and then to the silver standard proved highly disastrous for Japanese foreign trade, as we have seen in the discussion of ^{the} balance of trade.

Aroused by this fact, the nation began to investigate in 1892, and came to the conclusion that the gold standard must be

readopted. But the country having no funds at its disposal, had to wait to carry out the reform. Fortunately for Japan, five years later, as we have observed, the Chinese war indemnity made it possible to bring the country once more to the gold standard. Then the nation was in a position to expect with reason true economic prosperity for Japan; as Honorable Austin¹ wrote, "Now that the capitalists of the gold standard countries have become assured that they will no longer be in constant danger of suffering from unexpected losses from investment made in the country on account of fluctuations in the price of silver, they seem to show a growing tendency to make such investments at low rates of interest." The way was then opened for the steady and orderly growth of commerce and industry.

Section 2.

*-2

Banking.

Allied to the currencyⁿ system of a nation, as the mechanism for advancement of trade and industry, a well founded banking system must be counted as a most indispensable factor. But at the beginning of new Japan there was no banking house, in its modern sense, although "as soon as the restoration had been consummated, the new government lost no time in adjusting financial matters and in devising measures calculated for the promotion of foreign trade."³ However, these earlier efforts ended in failure

1) The U.S. Government, "Commercial Japan" page 2886

*-2) Okuma's "Fifty Years of New Japan" pages 486-533 Vol. I
The U.S. Government, "Commercial Japan" pages 2887
Japanese Government, "Japan at the Beginning of the 20th.
Century" pages 572-80
Japanese Government, "Post-Bellum Financial Administration"
pages 241-56.

3) Fifty Years of New Japan" page 491

owing to the absence of a regular system of protection and supervision. It was not until 1872 that the first legislative measure was passed for national bank regulation. (This law was based upon the bank act of the United States, modified by English gold bank system) But the private banks were left unregulated, and the numbers of both national and private banks was multiplied very rapidly.

Although the financial system of the country seemed fairly developed, they were independent^{fr} banks, without any connection among themselves, hence there was no means of equalizing and regulating the circulation of the money in the country. The necessity of a centralized banking system became evident.

After careful investigation, the Bank of Japan was established in 1882, which was to become the central institution to remedy the defects of the non-centralized independent banking system. The organization of the bank was mainly modeled after the Bank of Belgium, though much consideration was given to the central banking systems in other European countries, with a view to adopting them to the customs and conditions of the country.

Thus having laid the foundation for the banking system and having made sure of its development and workabilityⁱ, the country turned its attention toward the unregulated private wild-cat banks, and enacted laws in 1890 to regulate their business, for the safety of depositors. This general bank act reduced the number of the private banks from 1066 to 763, when the laws were put in force in 1893. Three years later new laws were passed to abolish national banks by obliging^{at} them to assume the form^{of} to ordinary banks, or by dissolving them on the expiration of their charters. The laws

were to be put in force on the ninth of December, 1899, on and after which date the use of national bank notes was prohibited.

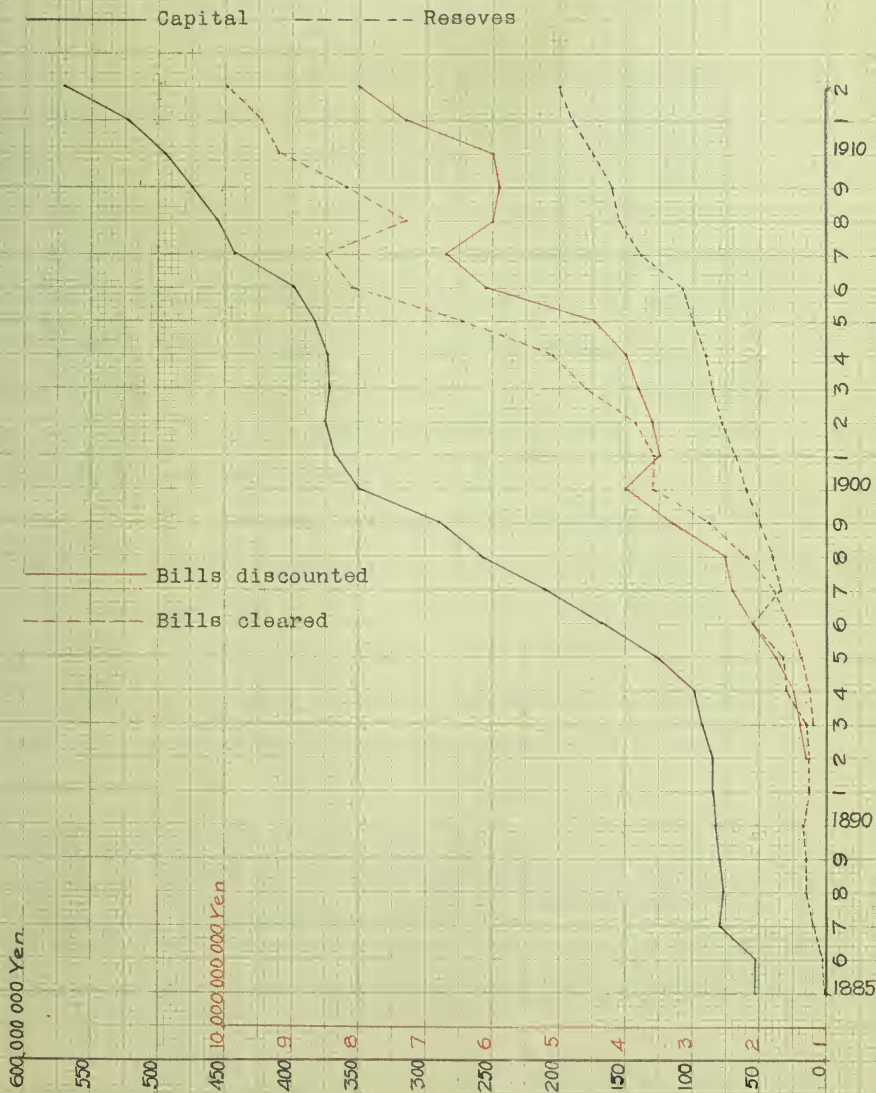
The relics of the old financial system thus disappeared and the secure financial foundation for the economic development of Japan ushered in a new epoch. The periodical growth of the banking business is noticeable following each of the new regulations promulgated by the government, as shown in the charts No. 3.

Until 1880, the branch offices of foreign banks at the treaty ports had conducted and entirely controlled the foreign exchange business among themselves. The rate of exchange and other commercial matters were under their control, and the Japanese merchants engaged in foreign trade were consequently at their mercy. This and the increased amount of depreciated inconvertible paper money, and the adoption of bi-metallism on the declining value of silver, caused the steady exodus of specie and good money, and necessitated the establishment of a special organ to finance foreign trade and to make adequate regulations to attract specie. The Yokohama Specie Bank was established under such urgent need, in accordance with the national bank regulations. But as the business of the bank gradually extended; if its special objects were to be successfully executed specially adopted regulations for the institution became imperative; whereupon the Yokohama Specie Bank act was passed in 1887.

the Bank
It started business with the capital of three million yen; at the end of 1912, it was conducting its business with the paid up capital of thirty million yen and a reserve fund of eighteen million yen. It has branches, sub-branches, and agencies in the important cities and ports all over the world. It leads all

CHART No. 3

BANKING



Other institutions engaged in the exchange business in Japan, and is rendering valuable service in the expansion of Japanese foreign commerce.

Section 3. Transportation Facilities of Japan.

a) Railroads.

For the expansion of the foreign trade of a nation, the first requirement is the development of commerce and industry within the territory of that nation; and for promoting these, there must be not only a good currency system and financial institutions, but also well developed internal communication and transportation. Transportation is perhaps more important for the accomplishment of the desired end. Among the many of the modern means of transportation, the railroad may be said to be the most important, even in such a country as Japan, which consists of numerous islands, having long coast lines, well fitted for shipping.

The crop failure in the North-East and on the island of Kyushu, in 1869, caused a famine in those districts in spite of the superabundance of the rice crop in the North-Western part of the main island, merely because of the lack of land transportation. This event was a strong factor in convincing the government of the need for a railroad, which would make desolation by famine impossible in the future.

*) Okuma, Fifty Years of New Japan, Page 404-447
 Full Recognition of Japan, page 442-58
 Past and Present of Japanese Commerce, page 99-117
 Japan at the beginning of the 20th. Century, page 704-18
 Commercial Japan, page 2949-50
 K. Abe, Railroad Control in Japan, The Arena 1900 vol. XXIV, page 64.

1) Refer to chart Nos. 4, 5, 6. which show the characteristics of the traffic in Japan.

RAILWAY MILEAGE AND CAPITALIZATION.

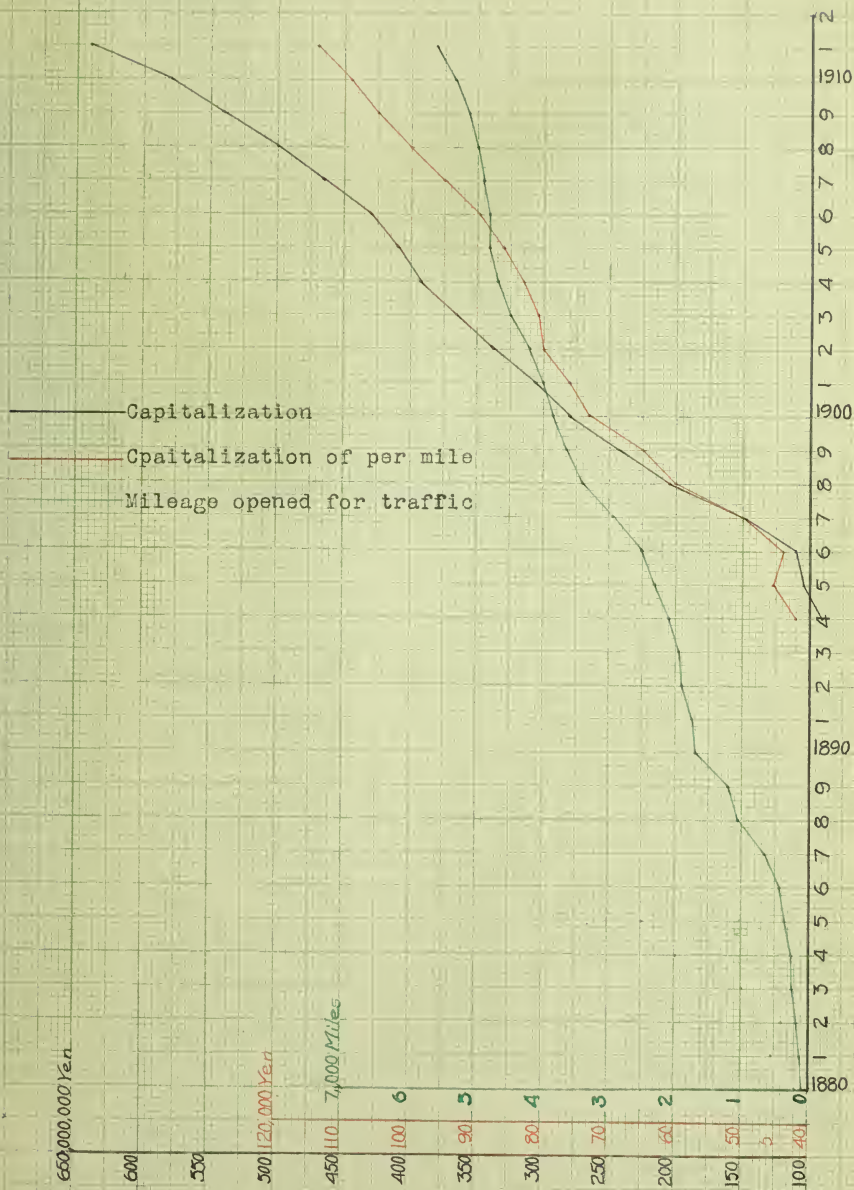


CHART No. 5

23b

RAILROAD'S ROLLING STOCKS

— Engines
 — Passenger cars
 — Freight wagons

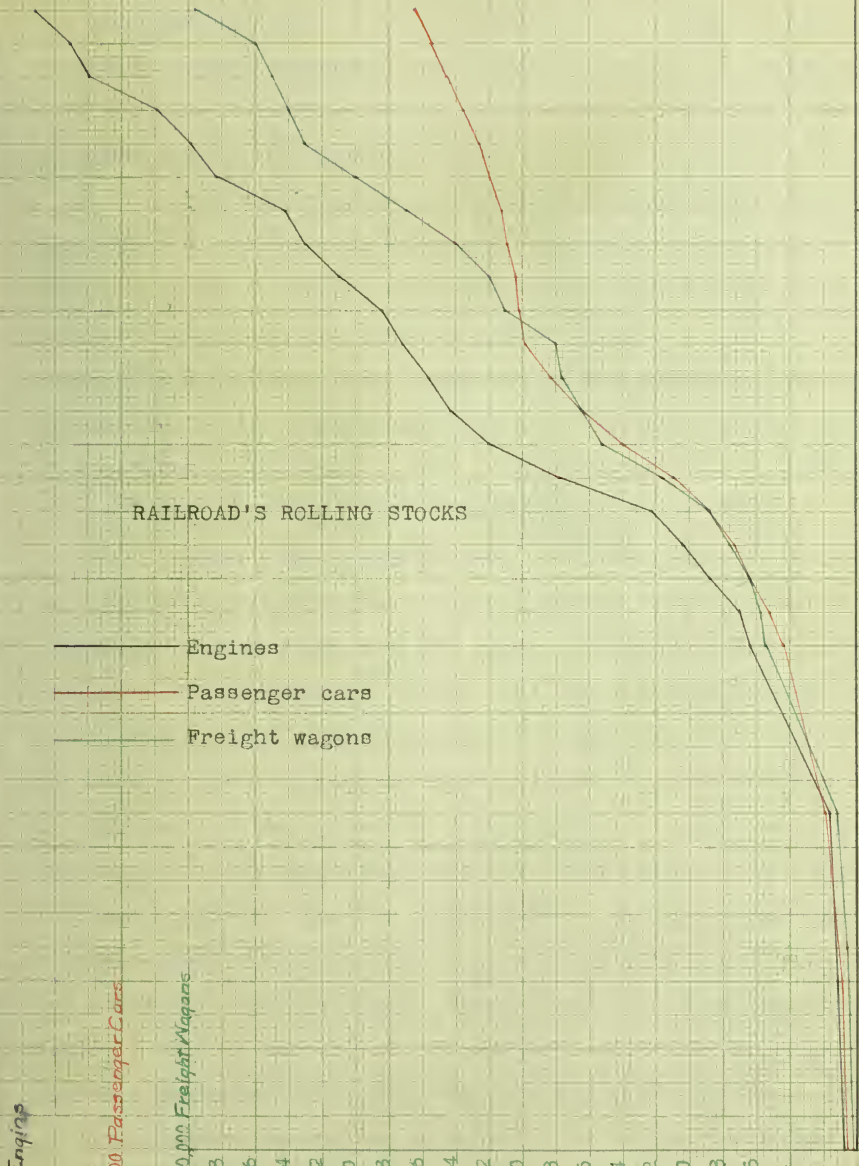
25.00 Engines

11,000 Passenger Cars

40,000 Freight Wagons

1912
 1911
 1910
 1909
 1908
 1907
 1906
 1905
 1904
 1903
 1902
 1901
 1900
 1899
 1898
 1897
 1896
 1895
 1894
 1893
 1892
 1891
 1890
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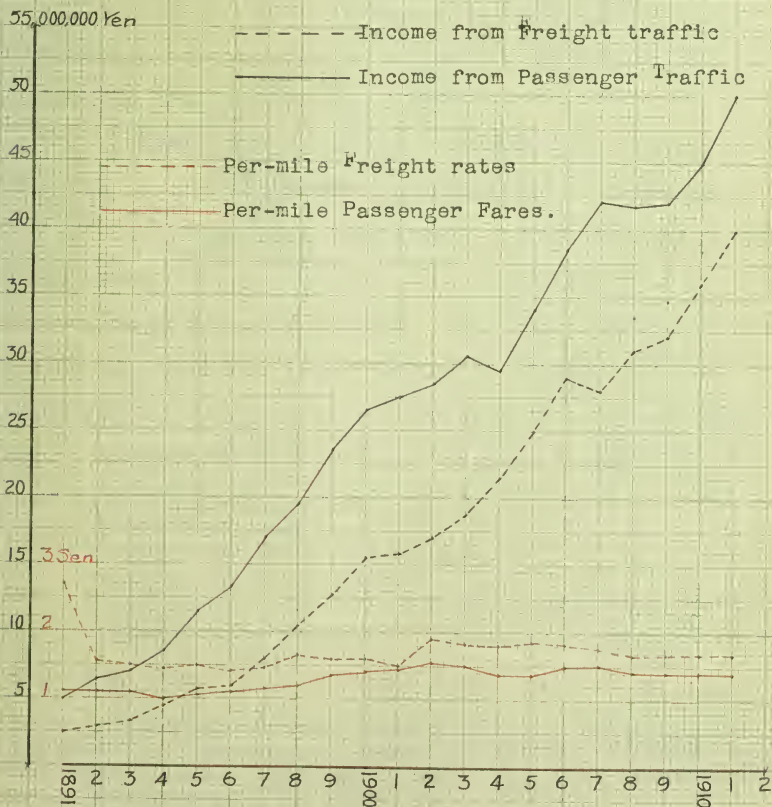
The government was convinced, but no fund for construction was available at home. Thirty million yen of English capital was borrowed on the security of the Japanese customs revenue, and with a further condition that English working men and engineers be hired and English material used.

The construction of the first line of steam railroad was begun in 1872, between Tokyo and Yokohama, - a distance of 18 miles. It was a success in every respect, but in spite of it, no private capital was attracted by the enterprise. This fact on the one hand and the fiscal condition of the government on the other, owing to the public debt, which was increased considerably by the Satsuma rebellion in 1877, did not permit the government to incur further debt for the construction of railroads.

Under such circumstances, the first ten years of railway construction showed but a slow progress. The gradual development of industry and commerce began to demand internal improvements, yet the capitalists thought that the railroad building was an extremely risky undertaking, and they applied to the government for a guarantee of a certain rate of interest on the capital to be invested for the purpose of construction. The petition was granted, and seven percent dividend was guaranteed on all capital invested in the building of steam roads. By this arrangement, a private company was organized, for a line between Tokyo and Aomori, and since then the development of ^{the} railroad system in Japan has been rapid. These roads were built entirely under the supervision of Japanese engineers and managed by native administrators. The statistical development may be seen on the charts Nos. 4, 5, 6.

RAILROAD'S INCOME.

Characteristics of the Japanese railway traffic may be seen by comparing gross revenue from passenger service with that of freight traffic. Unlike America and Europe, in Japan, passenger earnings are always in excess of those from the freight business. This peculiarity is due to the geographical condition of the country;— the coast-wise trade is well developed, and shipping plays a large part in general traffic and especially in the case of inexpensive, bulky commodities.



Section 3b

*

Shipping.

The statement was made in the previous section that the well developed means of land transportation is the basic factor for the internal development, thereby aiding in the expansion of her commercial interests in the world markets. But the direct medium for the attainment of such an end must be that of ocean traffic, in the words of the oft quoted clause, "Trade follows the flag." The truth of this statement is shown when we examine the development of the Japanese mercantile marine in its relation to her foreign trade expansion.

In 1859, a proclamation was issued by the government, granting the natives ~~thereafter~~ the privilege of possessing vessels of any size, without limitation. Thus the restriction which had been in force ever since the proclamation of the exclusive policy in 1641, was removed. In 1860 a shipping firm was established and launched into traffic; it changed its name in the following year, to Japanese Mail Steam-Ship Co., and increased its capital. However, the progress was slow, and in ^{no} any sense, adequate to the increasing demand for transportation. Thereupon, in 1875 the government bought up all the ships of the company, eighteen in number, and sold them to a newly organized shipping company on terms of easy payment. This new company was amalgamated with the Kyodo Unyu Co., in 1885, and a new name was adopted, -

*) Japanese Government, "General View of Com. and Industry of Japan" pages 48-53 "A history of Mercantile Marine in Japan" pages (whole book) "Japan at the beginning of the 20th. Century" pages Okuma, "Fifty Years of New Japan" pages 447-65 Porter, "Full Recognition of Japan" pages 360-65 MacKenzie, "Unveiled East" pages 6 Good, Cassiers Magazine 1909 Vol. XXXVII pages 3-11.

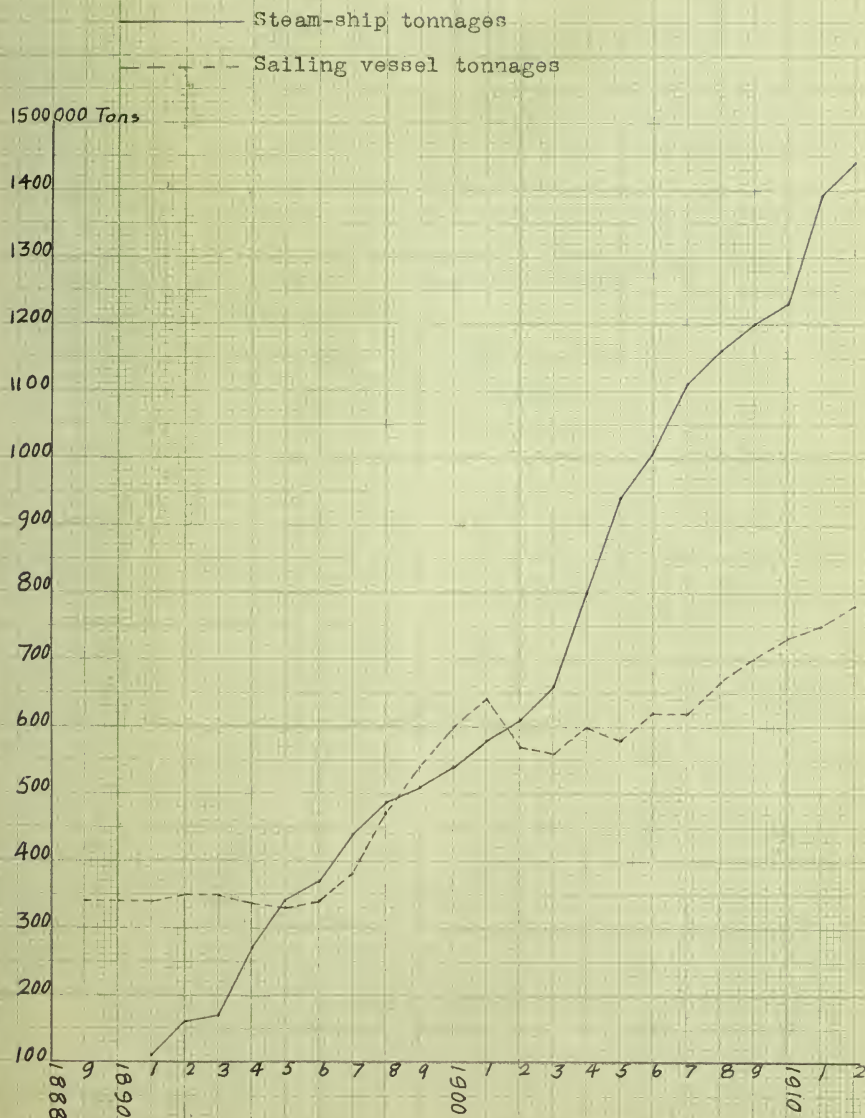
namely, the Nippon Yusen Kwaisha, with a capitalization of eleven million yen. Government aided in this amalgamation and guaranteed eight percent dividends for the first fifteen years. This was revised in 1877 to grant them 880,000 yen annual subsidy upon the condition that the company should maintain a minimum tonnage of 35,000. In 1888 the Osaka Shosen Kwaisha was organized and obtained an annual government subsidy of 80,000 yen. Thus the efforts were made by both government and people, but the development of shipping traffic, before the China-Japanese war, was very slight. After experiencing great difficulty in transporting the troops and provisions during the war, and desiring the expansion of her commerce, Japan decided to adopt a definite policy looking forwards the development of shipping and shipbuilding industry.

Since that time, marked progress has been made and in 1904 she gained the eleventh place, and in 1908 the sixth, among the world's commercial sea powers. Among steam ship companies the Nippon Yusen Kwaisha stands higher on the list than famous lines, such as the Union-Castle, the Cunard, and the Elder Dumpster, in England. This progress is attained through the training of native sea men, and at present there are no foreigners on the Japanese ships, except a few, who have been serving since the date of the beginning of Japanese shipping.

One interesting feature should not escape our attention in connection with the development of native shipping and its relation to foreign trade. - see chart No. 8. The line showing showing the value of total exports and imports rose, nearly parallel with that showing the total vessel tonnage entered from foreign countries into Japanese ports, while export and import trade of Japan carried by Japanese ships follows almost exactly the total tonnage of native

CHART No. 7

SHIPPING of JAPAN.



SHIPPING AND FOREIGN TRADE

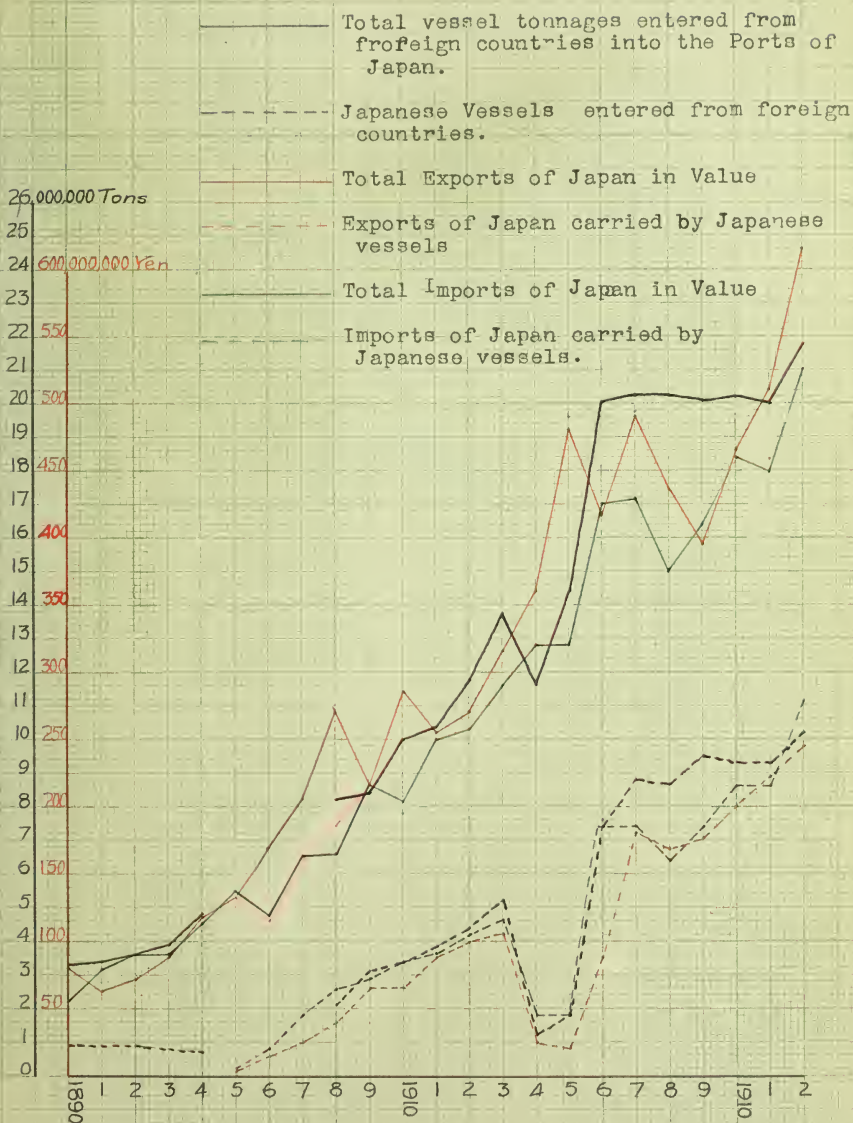
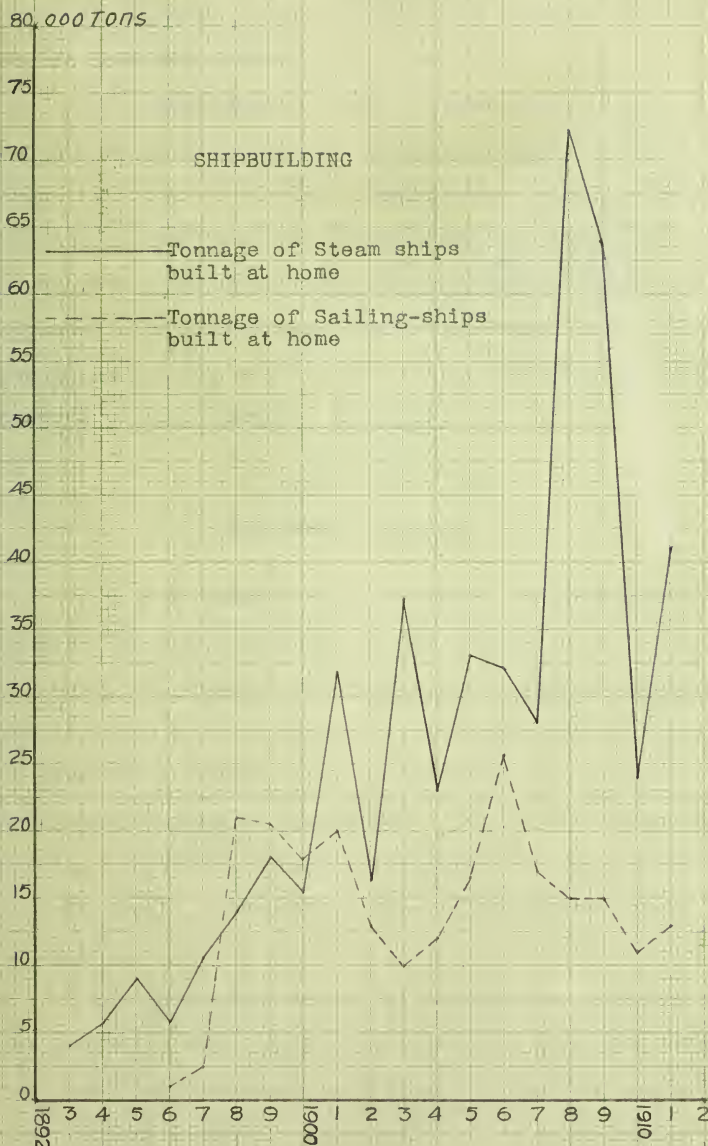


CHART No. 9



ships entered from abroad, and exceeds it in the case of export trade. All of which seems to prove the truth of the quotation, "trade follows the flag."

In connection with the Japanese shipping, the progress of the country in shipbuilding should be noted. It has passed long ago the stage of piecing together the materials made abroad. "In design, workmanship, and finish Japan has attained a high status, though somewhat behind in cost and ⁱⁿ ^{required for} time of production. ~~All~~ All Japanese docks are managed by native engineers." The increase of tonnage and annual production of ship-building in tonnage may be observed in the foregoing chart, No. 9.

Section 4.

Government Policy.

In this chapter we have traced the development of some of the more important agencies in the expansion of foreign trade, such as money and banking conditions and means of transportation on both land and sea, but above all these, in case of Japan, there is a most powerful influence that facilitated such progress in both commerce and industry of the nation. It is the policy of the government, - prevailing spirit of paternalism characterizing the central and local governments, which was shown throughout the ages of old Japan.

The government policy of encouraging industry and commerce by employing such devices as subsidies, bounties, reimbursement of taxes paid upon raw materials when the finished goods were exported, various kinds of experiment stations, publications, lecture-ships, ^{and} consul services, sending investigators abroad, establishment of commercial, industrial and marine schools and museums, protection

of patents, designs, trade marks and utility models, and last of all the protective tariff, is common to all leading industrial and commercial nations of the West, and also of Japan. But it is not the purpose to discuss each of these already familiar cases of government aid, but to reveal and discuss those features of the paternalistic policy which are peculiar to present Japan.

As shown in the diagram No. 2, the financing of industries and commerce of the nation is completely dependent upon the policy of the Bank of Japan; and the policy of the Bank in its greater extent, is dependent upon the policy of the Minister of Finance, who in turn, is responsible theoretically only to the Emperor of Japan. Furthermore, some of the policy forming officers of the Bank are appointed by the crown, and the Imperial Household, as well as the Government itself, are powerful shareholders in the institution. The system represents what one may call an Imperial Money trust. ¹ (see the foot note on the next page.)

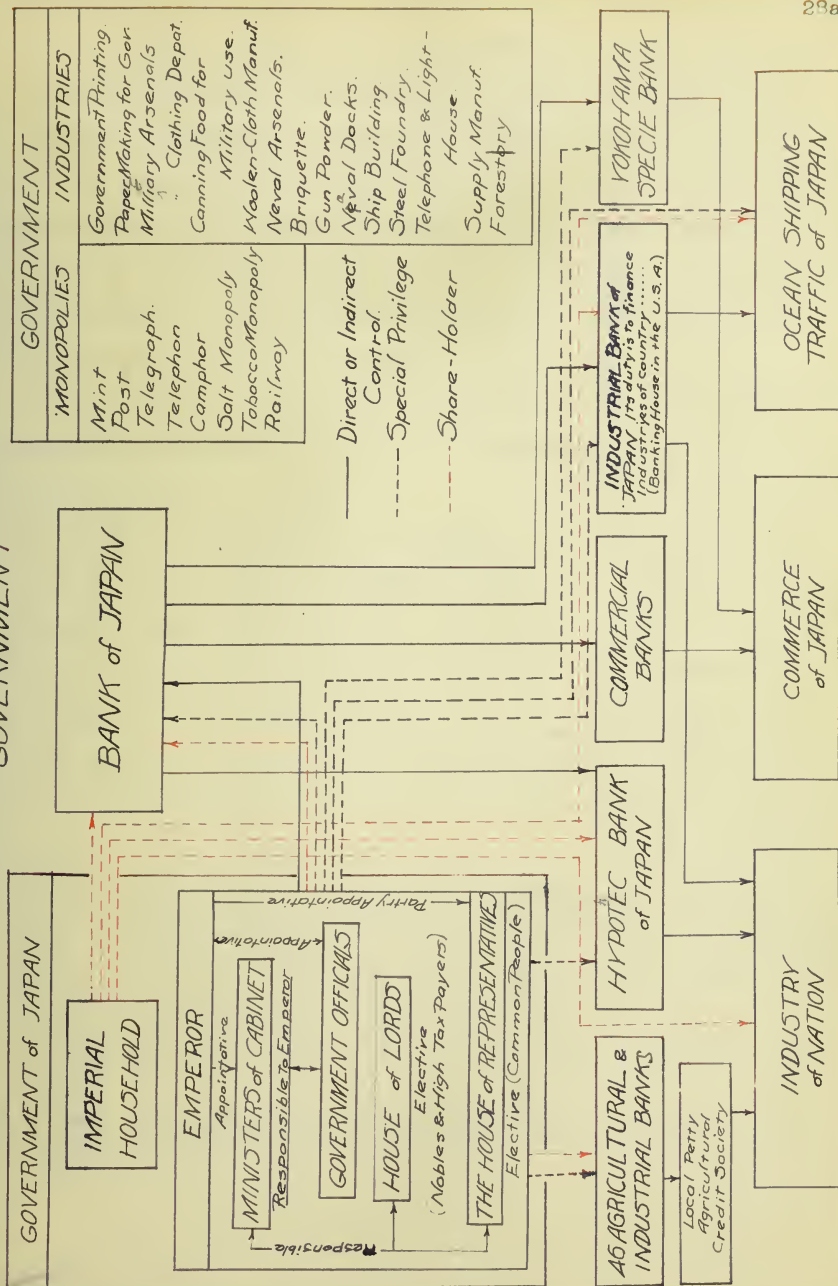
- 1) There is one aspect of Japanese activity that has not yet been duly considered by economists or political students, - the aspect of an empire as an industrial state. The government policy of Japan is going fast on its way to out strip all others as a proprietor and a director of industry....

Partly as a result of a settled policy and partly by reason of the temperament and loyalty of the people and of their recent coming into the modern industrial world, the government is (or soon will be) in complete control of the fundamental industries, of the national resources, and of the transportation, by sea and land. Yet it is not despotic government in the sense in which the Russian government is despotic. And the people unlike the people of any despotism, are the masters of all the machinery of modern industry.... The present, if carried, to its logical development will bring about a sort of collectivism such as the builders of Utopias would establish in America and Europe, and such as has never before arisen in the world....

The rapidity with which wealth may be created and concentrated for national purposes under a system like this is likely to surprise the people of strongly individualistic qualities....

Regardless of its political significance this development of a nation as an industrial state will be a test of government ownership more extensively and sever than we have yet had. It may be that Socialists and communists will find there the realization or disappointment of their dream. - W.H. Page, World's Work, May, 1908

Diagram No 2 PATERNALISM OF JAPANESE GOVERNMENT



The facilities for both communication and land transportation of the empire are almost entirely monopolized by the Government; the policy of the water transportation of Japan is under the control of the officials by means of ship subsidies, and about two-fifths of the total shares of the Nippon Yusen Kwaisha are held by the Imperial Household. (The Nippon Yusen Kwaisha is the holding company of the Japanese China S.S.Co., one of the four largest organizations of the kind)¹

Beside the Imperial money trust and the thorough-going government monopolies and control of industries, there are yet other features peculiar to Japan only. One is the government inspection of all staple commodities for exportation, such as silk and tea.² The other is the official promotion of trusts.³ Some of the noteworthy combination under this system are these of the Nippon Yusen Kwaisha formed in the early 'eighties, and the recently organized⁴ the match making trust. The third feature of the the government policy to be considered is the tendency to monopolize all enterprises which are directly related to the interests of the community, in the hands of either local or national government. The examples of this are

*) The Imperial Household has shares as following: 60,660 of the Bank of Japan, 60,400 of Yokohama Specie Bank, of the Industrial Bank 10,000, The Japanese Year Book 1913, page 29. The Government of Japan furnished one half of the capital of the Bank of Japan, when it was organized with the capital of 10,000,000 yen Fifty Years of New Japan" page 514.

1) Imperial Household has 80,550 shares; Japanese Year Book, page 29; Nippon Yusen Kwaisha is holding Co. of J.C.S.S.Co, ibid page 29

2) "Japan at the Beginning of the 20th. Century" pages 173; 158.

3) U.S. Monthly Consular Report, January, 1906

4) ibid,

the cases of tobacco, salt, campher monopolies, the nationalization of the railroad system, municipalization of city electric railways and the movement toward the nationalization of water power in the country.¹

Thus "the influence of the government is felt in all lines of commerce and industry. Such paternalism exists that no one in business, pressed by the exigencies of the time, hesitates to call upon banks directly controlled by the government, for assistance."² in fact the leading commercial and industrial enterprises of Japan are almost entirely supervised by the government.

The development of this thoroughgoing ^{paternalistic} ~~socialistic~~ policy of the government may be accredited to the influence of the hierarchical family system, under the Confucian doctrine of paternal government. But the direct influence, that exerted in bringing about the policy now prevailing in the empire, must be more definite in its nature. Hence an exposition of the real motives lying behind it must be of considerable interest to the observer.

The bitter experience that Japan suffered industrially at the beginning of her contact with European peoples, was brought about by the ~~rise~~ sudden influx of ^e foreign goods, which forced the suspension of various home industries.² To pay for these foreign goods there was nothing adequate, - even ^{the} silk industry, the product of which now represents more than one-third of the total amount of exports from the country, was not yet started. The out-flow of gold and silver specie was the ultimate result. But to start new

industries and to improve the domestic system of manufacturing by individuals, in competition with foreign producers, was impossible especially at the moment of the sudden change. Thereupon, Japan knowingly or unknowingly, accepted the advice of Alexander Hamilton that " Men are the creatures of habit, and that the simplest improvements are adopted with hesitation and reluctance; the spontaneous adoption of new methods in a country long accustomed to act differently meets with great difficulties and requires encouragement and patronage of the government. Capital is wayward and timid in lending itself to new undertakings, and the state ought to excite the confidence of capitalists who are ever cautious and sagacious, by aiding them to overcome the obstacles that lie in the way of all experiments."

In the second place, the nation was keen to the fact that if the economic development of the country is left to follow the individual initiative of the people, the national activity will be too much diversified; energy and time will be lost through the effort directed along unprofitable lines. The unity of the nation, under one effective trustworthy directorship, was the only means to overcome the difficulties of the situation.

After passing these two stages, the paternalistic policy was forced to advance a step further on account of the national pride, which caused an increase in government expenditure, as well as on account of the growth of population compelling larger importation of foodstuffs. Here for the first time the nation had to decide her own destiny, - either to submit herself to the powers of the West, and to starve, or to struggle to live independently. Japan accepted the latter of these two alternatives and plunged into the desperate struggle in the

arend of industrial and commercial competition with the far advanced nations of the West. The project was forwarded with courage and ambition but it was perirous indeed! For the enterprise was gigantic with neither capital, skilled labor, nor captains of industry. The formation of the destiny of the empire at the ^{time} ~~was~~ dependent upon the mutual confidence between ruler and the ruled:- and the development of paternalism in Japan reached its maximum.

The fourth period in the development of the policy came with the opening of the war with Russia. Japan was satisfied with the victory, and the pressure from the North, which has been endangering the existance of the national independence for decades, was removed. But the greater part of the war financing was done by the sale of government bonds, both abroad and at home. Japan ^{had to} ~~must~~ pay the interest and pricipal of her debts; her government expentitures increased, by reason of ~~entering~~ ^{had to} into the family of nations; she ~~must~~ ^{had to} develop the territories newly acquired, and for further protection of her home land and her new territories she ^{had to} ~~must~~ spend more than ever. As a consequence, the government expenditures rose from 250 million yen for the fiscal year of 1903 to 600 million yen in 1907. The government must have the revenue to meet this suddenly increased demand, but the agricultural land was already heavily ^a ~~taxed~~, the industry of the nation was still at the beginning of its development. At such a desperate moment the ingenuity of the statesmen caught the idea of transforming the paternalism into ^a socialistic government monopoly of some leading industries. of the country in addition to the ones already ~~was~~ monopolised.

Here we must admit the criticism of Mr. T.F. Millard that " practical incentive and origin of the present development of paternalism are found else where; and lest Western advocates of government paternalism should too quickly point to Japan, as a shining example (as some are inclined to do) it may be well to consider the circumstances which influenced her in assuming such an extreme position."

However, here we are not concerned with the circumstances under which the national policy grew into socialistic, but the question at issue is, 'does this socialistic tendency constitute further development?' Or in other words, is Japan going to monopolize all her national industries in order to win the markets of the Eastern countries?

Nothing can be definitely stated in this regard, but it might be said, that under forty-five years of government directorship the nation has reached the most prosperous period in her history: and throughout the period, the economic condition of the nation advanced in lines parallel with the ascendancy of bureaucracy. The latter ^{reached} its maximum by the time of the death of the late Emperor Mutsuhito, and lost its influence over the government during the last two years of political crisis. It is very doubtful whether the whole nation is already lifted up to the lofty standard of political thought, as the leaders of the recent democratic movement believe they ought to be. But so far it is certain, that the development of paternalism and its transformation into socialistic propaganda was done under the monarchical principle, and influence of the bureaucracy. Both monarchy and bureaucracy ^{the} are the distinct sign of aristocracy. Then the logical

conclusion will be that the paternalism originated by aristocratic institution can never remain unshaken when new democracy wins the government organ. The future alone can tell whether the democracy of Japan will or will not follow the present policy of extreme paternalism, which would lead to the adoption of the socialistic program in the interest of her commerce and industry.

CHAPTER III.

OBSTACLES TO THE PROGRESS.

Section 1.

Lack of Capital.

Up to 1900, in spite of the scarcity of capital, the traditional fear of foreign invasion, whether it was political, economical or other-wise, was so strong, that the nation refrained from making terms with foreign capitalists. They forebore the high rate of interest, which to say the least, proved to be an obstacle to the economic development of the country. At last, the national prejudice had to yield to expediency. In 1902, the British Consul General made an excellent report, that " Scarcity of capital available in Japan for government and private enterprise was perhaps realized more clearly in 1901 than ever before. The people were compelled to follow the examples, of the government and postponed, as far as possible, new undertakings. The thought in the minds of many of the people, prior to the revision of the treaties, that foreign money and enterprise were merely awaiting the opening of the country, and would then invade Japan in a manner that might even be prejudicial to the national interests, is now recognized to have been an idle fancy. The question now, is how to tempt the investment of such capital, on term that appear satisfactory to the Japanese-would-be borrowers themselves. Further efforts were made both by the Japanese and by foreigners interested in commercial industrial development of the country, to relieve financial pressure by the introduction of funds from abroad."

The effect of this movement was suprisingly helpfull¹ to the national economy. It caused a substantial lowering of the interest rate: the annual average rate of discount between 1890 to 1903, went up some time as high as 15 percent, and never came down below 11 percent, where as since the latter year, has varied between eight and eleven percent with a lowering tendency. Thus one of the giant obstacles to the industrial and commercial development of the country was thrown aside. The lowering tendency is still in its course, and as a result we may expect greater economic development of the country.*

Section 2.

Agricultural Rural Economy.

We will ~~see~~^{consider} the importance of the agricultural ~~com-~~^{community} unity, its subsidiary industry, and its close relation to forestry and fishing, in the following chapter. On them the strength of the nation largely depends. They pay a great partion of the state revenue; to them Japan's military fame^{is} due, and from them the country draws its industrial and commercial force. Their welfare is directly felt by the whole structure of the nation. But the welfare of the agricultural community in Japan has been a topic of wide discussion both at home and abroad in the past fifteen years.¹ Their views were quite contradictory if we discard the rapid progress and improvement of rural economy made during the same period.²

*) Financial and Economic Annals" page 142-3

- 1) According to the statistics, the total debt of the farming class at present, amounts to about six hundred million yen, two third of which is the result of the easier life led by the generality of farmers, the better food, closing and housing. This capital is unproductively employed, while the remaining one third goes to the fund for the improvement of the agricultural industry. The interest paid by farmers is abnormally high, ranging from fifteen to thirty percent per annum, and there is little prospect of repaying, as the profits are small.... (see next page-)

The influence of the falling price of silver was decidedly in ~~the~~ favor of the Japanese farmers in exporting their products, for the consumers in the gold standard countries could ^{obtain} them at greatly reduced prices, because of the peculiar condition of the trade existed ^{between} between silver and gold countries, as we ~~once~~ discussed in ~~the~~ connection with the balance of trade. At the sudden change of the monetary standard of Japan the consumers of the gold country could not adjust themselves at once, to pay much higher prices for Japanese farm products. This fact is clearly shown in the cases of silk and tea exportations of the country. The former fell off from 50 million yen in 1895 to 30 million in 1896. (see the chart No. 10) ^{tea is} The decline of tea exportation of Japan ~~se~~ clearly dated from the year in which the gold standard

-(continuation of the foot note on the last page)"For this reason, the improvement of farmers is entirely out of question. The small tenants farmers are rapidly forsaking their holdings for other business, and tenant farmers ~~are~~ in Hiroshima and Yamagata Prefectures, where the agricultural land is largely owned by a few rich farmers, are steadily leaving for abroad.

-The United States Monthly Consular Report No. 269, 1902"

- 2) "The lot of a farmer in Japan does not seem particularly enviable in the eyes of a foreigner; but by the Japanese themselves it is generally spoken of as being in some respects, more advantageous than that of most other classes. The farmer is more independent, though often his self-satisfaction is due much more to his ignorance of better condition than really worthy motives; he has seldom occasion to be subservient to his betters, and can arrange his own hours of work, at least some extent. His life, with all its drawbacks, is healthier than of sedentary workers; and as a class, agriculturists are the longest lived, instances of extreme old age occurring almost exclusively among the agricultural and fishing population. The farmers has more variety of occupation than many handicrafts men or even some professional men; and in the Winter in the Northern part of the country, at least, has good deal of leisure, if he is not too industriously employed in the making straw articles, rush mats, weaving etc.. On the whole and taking the general standard of living into consideration, the Japanese farmers is well off and contented as his comperes in most other countries, and better off than in the some."- Monthly Consular Report May, 1909 (U.S.)

190 Million Yen

CHART No. 10

EXPORTS of SILK

The slow progress of silk manufacturing is due to the protective tariff of the United States.

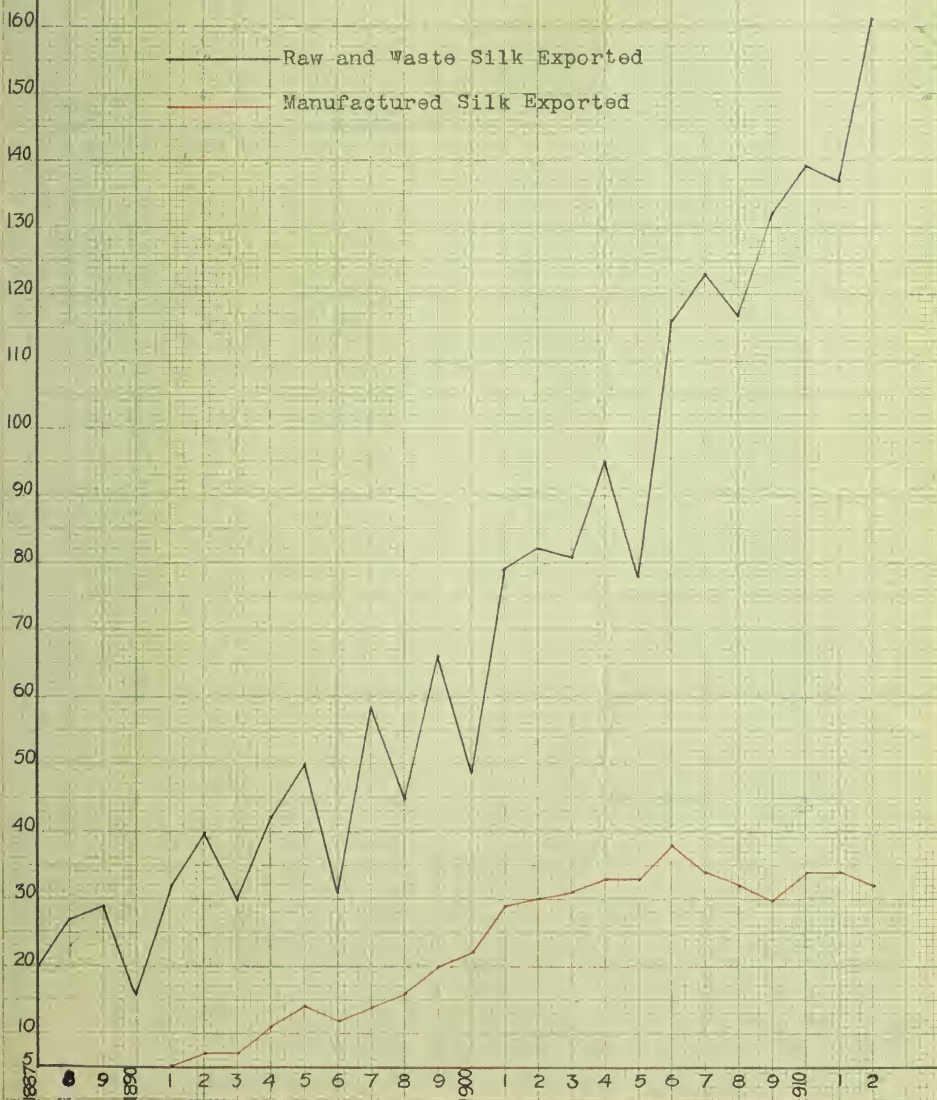


CHART No. 11

OUT&PUT of TEAS.

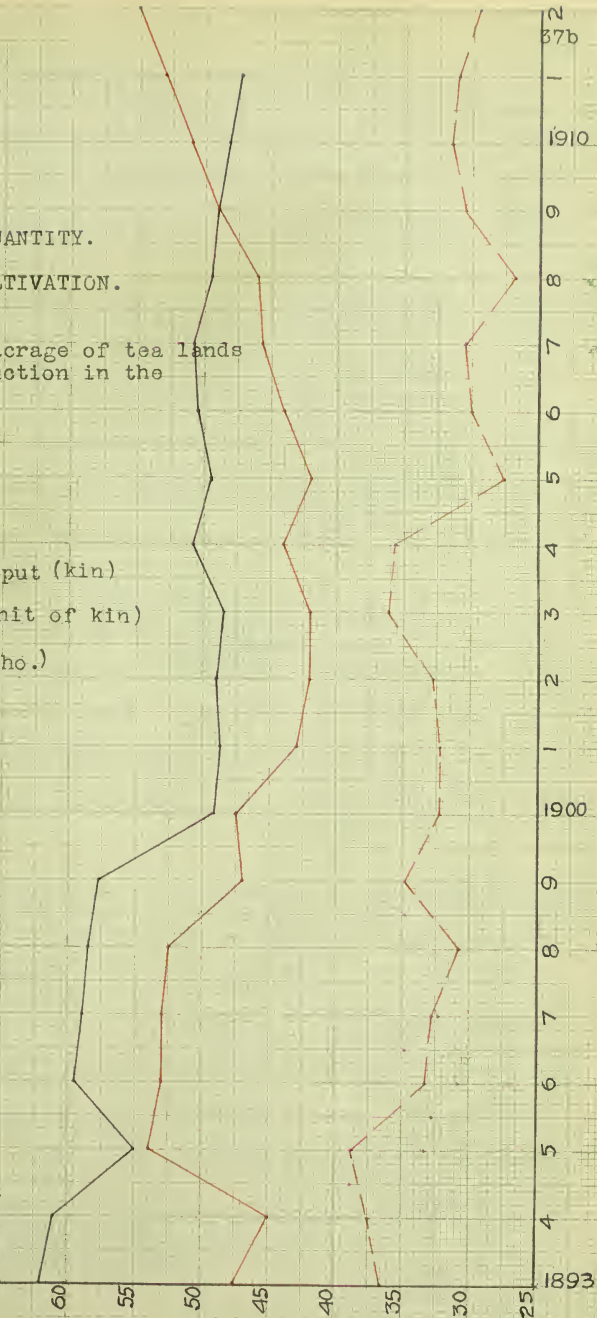
EXPORTED AMOUNT in QUANTITY.

AREA EMPLOYED in CULTIVATION.

Note the decrease of acreage of tea lands and increase of production in the recent years.

— Total out-put (kin)
 - - - Exports (unit of kin)
 — Area (in Cho.)

65 Million



was adopted. (see the chart No. 11) It was not until 1901, the exportation of agricultural products of Japan resumed its proper course of increase. Thus the Japanese farmers had suffered a great loss as the direct result of the change in the monetary standard of the nation.

The second consideration of the agricultural economy until 1900, is that the Japanese farmers had to pay duties upon imported fertilizers. They could not use liberal amount of fertilizers, to regain the productiveness of soil. This is shown in the steady increase of the imports of bean cakes, and chemical fertilizers and also in the increasing production of rice crops since 1899. (see the chart No. 12)

Thirdly, the little or no custom revenue up to 1899, because of the free trade policy, ^{compelled} ~~obliged~~ the government to tax heavily the agricultured lands. The farmers burden, by 1901 was very great, - for example they had to pay about thirty percent of the total revenue of the government in 1898, and fourteen percent ¹ in the year 1913.

Fourthly, because of the undeveloped agricultural credit system, ² farmers had to pay from 20 to 40 percent interest in financing their industry. To cure this defect in 1897, the government encouraged peoples to establish the Hypothec Bank of Japan, granting special privileges, and subsidy for ten years, in order to enable the bank to pay dividends of five percent, per annum, on its capital. ³ Also, the government persuaded peoples to

2) "Japan in the Beginning of the 20th. Century" page 112

11) "Financial and Economic Annals" pages 114-5

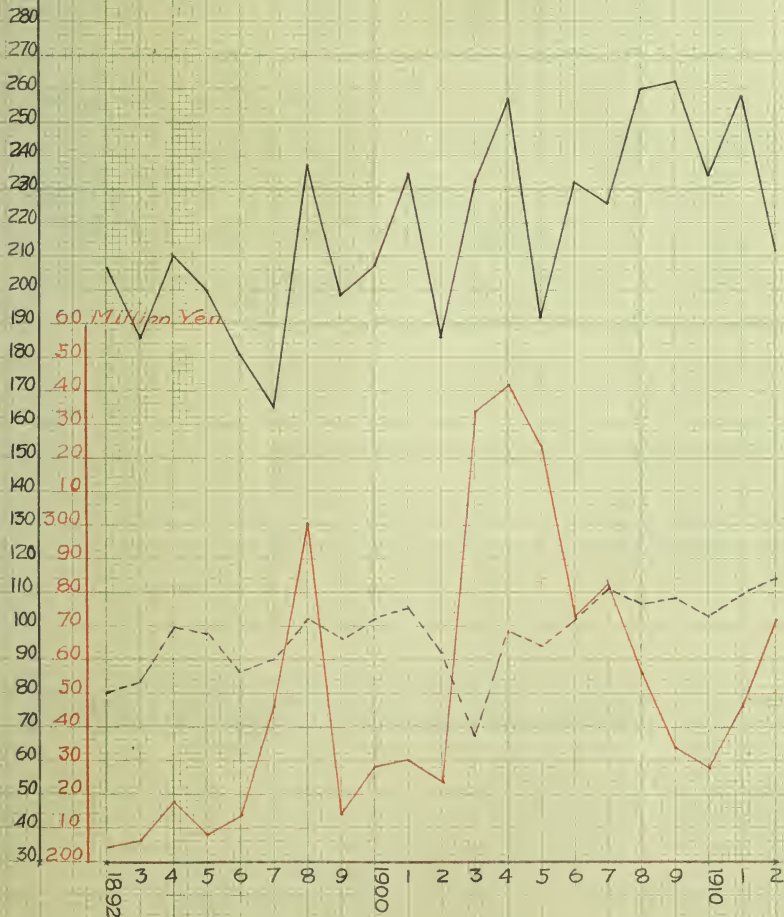
3) "Fifty years of New Japan" page 527 Vol. I

CHART No# 12

PRODUCTION OF RICE AND WHEAT
AND
VALUE OF RICE AND WHEAT IMPORTED

— Production of Rice
- - - Production of Wheat
— Value of imported Rice and Wheat

290 Million Bushels



organize 46 local agricultural and industrial banks; the government became a share holder in all these local banks, without claiming any dividends for fifteen years.¹ Again, under the local banks, farmers of limited means were encouraged to organize Credit Guilds, for their benefit.² The successful operation of this rural credit system, in Japan, may be seen through the increasing amount of loans, - in 1903 the total loans made during the year by the local banks were only 20 Million yen, where as in 1912, the amount rose to 128 million yen.³

Thus all the marked economic development of the agricultural community has been made in these ten years. Indeed, by 1900, the value of agricultural products had fallen off for the time being, while the cost of living had gone up through the effect of the imported material civilization; the wages of laborers also went up. It was rather a natural result, that small farmers forsook their lands to lead urban life or to go abroad. It was and so in 1909 right to speak of these features of farmers' life by 1902; the United States Vice-Consul General Babbit's observation was correct as the farmers' lot was improved, and this improvement is still going on its course.

1) "Fifty Years of New Japan" page 527

2) "Japan in the Beginning of the 20th. Century" page 112

3) "Financial and Economic Annals" page 128-9

Section 3.

Lack of Raw Materials.

The third consideration of obstacles in the industrial progress, ~~must be~~^{is} that of the lack of raw materials. Japan must buy cotton from India, the United States, and China; iron ores from China; pulp from Scandinavia; wool from Australia; and to feed her industrial force she must buy foodstuffs from India, China and the United States. How without all raw materials can Japan make headway, as an industrial power, in competition with the far advanced machine-shop workers of the West? This is a very convincing argument to ordinary lay men, but ^{not} to the trained economists and industrial leaders. Between China and Japan, the distance is short, science of navigation is advanced, and the people are willing to work, and the lack of materials is only a small consideration to Japan to develop her industry. For Japan is in no disadvantageous situation, when she is compared to England or Germany, in the consideration of their freight cost. Moreover, Japan has a prospective future, in cultivation of the Manchurian wheat, which is said to be even better than Canadian. Manchuria promises production of beet-sugar, raw wool, and minerals. In the future the Hokaido forest ~~will~~^{will} supply wood pulp, and the forest of Formosa and of main island may feed the paper mills of Japan with bamboo leaves. The time is not yet matured to discuss the result of the development of manufacturing industry in China, India and South America, for such is ^{development of industry not} ~~not~~ concerned only to Japan, but to all industrial nations of the West as well.

Section 4.

Efficiency of the Working Men.

Efficiency of the laborers is a fourth and greater consideration than the former three, in the direct relation to manufacturing industry. Eighteen years ago, a British consul ^{reported that} ^{observed} two men, six women and two children ^{observed} to be in attendance on one pair of mules of eight hundred spindles each. In England, one man and two boys would look after one pair of mules of one thousand spindles each.¹ This inefficiency of labor was unavoidable at the stage of industrial infancy, and it was recognized by industrial leaders and statesmen, and in 1900, they revised the primary school laws and established higher technical educational schools in the important cities.

The absence of a permanent class of skilled labor was due to two causes. The first is woman and child labor, the second ~~because of~~ approximately the same daily wages were paid in the earlier years to both skilled and unskilled. To overcome these defects various kinds of inducements have been offered to skilled women workers, to remain in the industry, even after their marriage;² Child labor, - under twelve¹/₂ years old has become practically impossible, because of the compulsory education, and the response of the nation to this law, in sending 9³/₈ percent of their children of the school age.³

The invariable nature of daily wages shown in the chart No. 13, until 1894 was no inducement for wage earners to acquire

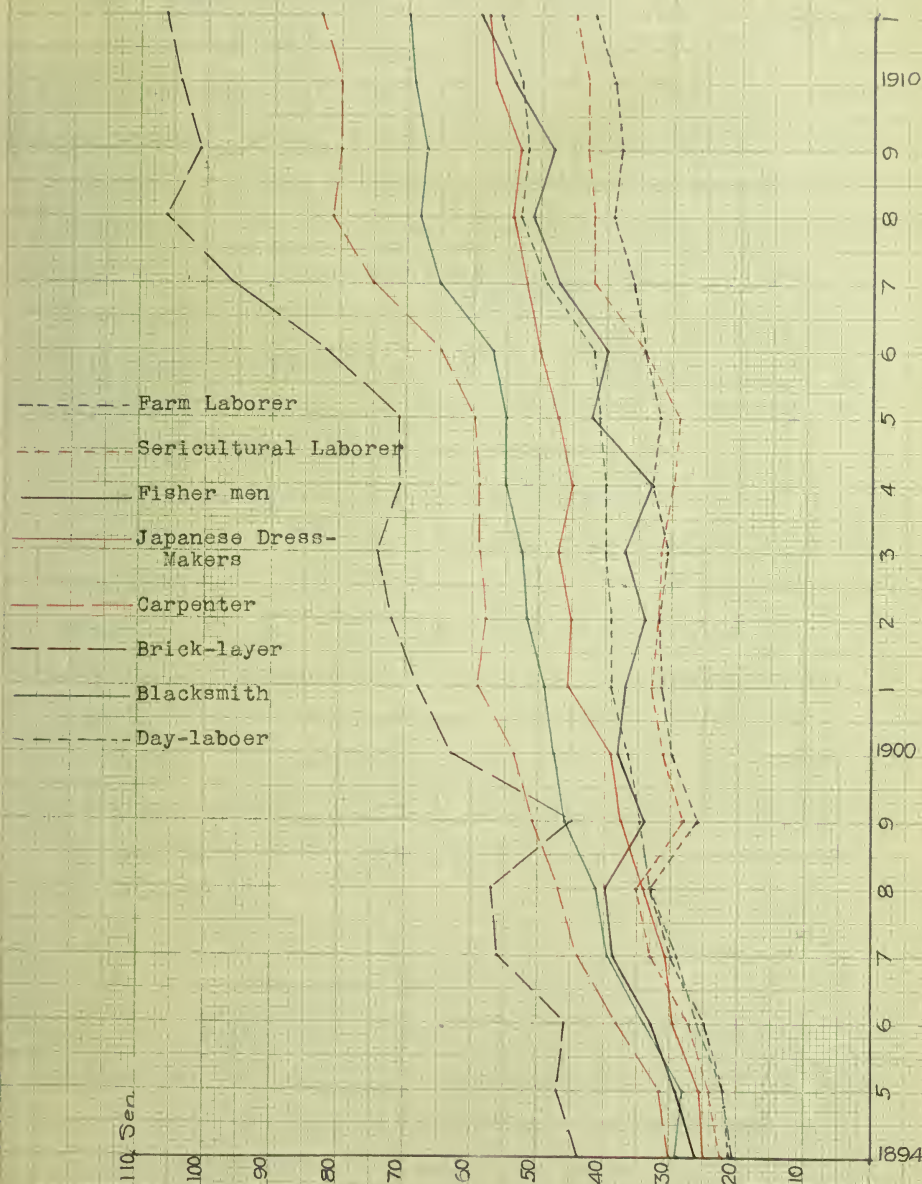
1) Miscellaneous Series No. 440, 1897, -

2) "Full Recognition of Japan" page

3) Nitobe's "Japanese Nation" page 138,

CHART No. 13

AVERAGE DAILY WAGES OF LABORERS



skill, ^{they} ~~but~~ shifted themselves, at their will from one industry to another. Hence no permanent class of skilled laborers could be built up; the variability of wages for skilled and unskilled ^{labor} is the only encouragement to industrial force to acquire and to retain the training in each particular line of manufacturing or other vocation. If this argument is accepted, and a comparison be made between the wages of 1894 and those of 1911, one would be convinced that the efficiency of labor has been gradually increasing, even if not in proportion to the rapid ^{industrial} development of the recent years. This natural inducement for laborers to acquire skill in order to obtain better pay must be greatly emphasized by the increasing cost of living as shown in the chart No. 14.

Forsighted statesmen and advanced industrial leaders are keen to the fact that long hours, cheap wages, and unsanitary conditions of working are detrimental to the advancement of efficiency. In these ten years, ^{every} ^{one} ^{mean} has been employed for the purpose of increasing the efficiency of the working people. Without rewarding these efforts in increasing efficiency, the recent expansion of manufacturing industry would have been impossible; the rising amount of export of manufactures may be regarded as the ^{best} index of the improving efficiency of the industrial workers of Japan.

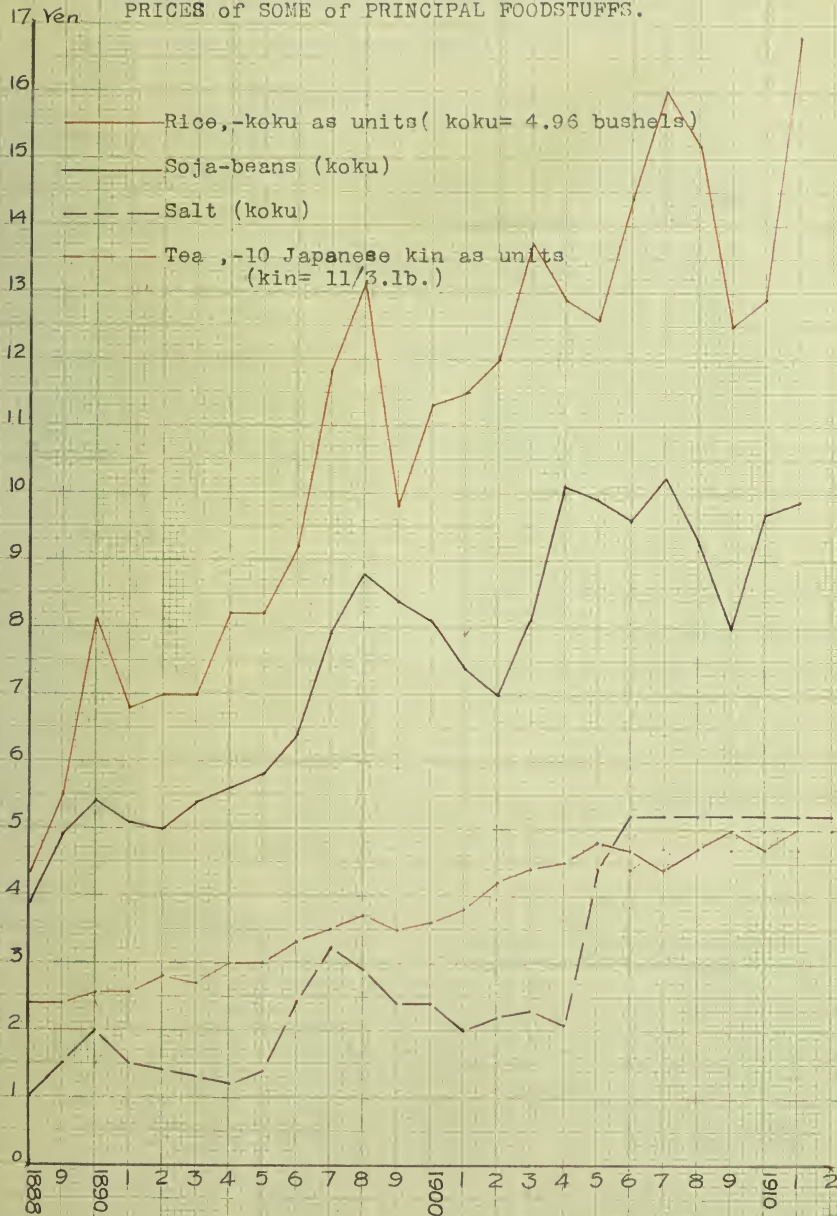
Section 5.

Creative Quality of the Nation.

Efficiency of labor may be improved up to certain standard by both artificial and natural stimulus, but to change inborn characteristics of a nation ^{one can hardly expect} ~~can hardly be expected~~. Before 1900, the popular notion of the characteristics of the

CHART No. 14

17 Yen PRICES of SOME of PRINCIPAL FOODSTUFFS.



1

Japanese was an "imitator". Indeed it was impossible for any one to observe any considerable degree of mechanical ability in the latter part of the second transitional period, from a purely agricultural to a manufacturing country. At that time, Japan must have appeared to the Western people as an imitator, for the nation had just come out from the difficulties in the change of the methods of production, - from domestic ^{industry} to ^{system} mechanical factory. There was no time for Japan to spend energy in displaying their inventive quality; the immediate demand of the time was to import all the machines that they could possibly use, in order to check the imports of Western manufactures. Japan has been too busily employed to allow the appearance of inventive genius but without sign to nullify the world's common belief that the Japanese are imitators.

The first locomotive made in Japan in 1893, was a success because of the lowness in consumption of coal, good ²hauling capacity and steadiness. Railroad constructions, factory, machine shops, and ship-building are operated by Japanese under native supervising engineers; wireless telegraphs and telephone were independently invented, and other rapidly increasing scientific discoveries and inventions in the recent years may be observed by the number of

patents applied for and granted, as shown in the chart No. 15.

2) British Consular Rep. Annual Series 1900

1) "In many of their products the Japanese have shown great refinement of taste and great manual dexterity, in carrying out their artistic conceptions, yet there is very little in their ~~xxxxx~~ industrial products to indicate that they have ever possessed any considerable degree of mechanical ability. Undoubtedly artistic taste and skill applied to production, as in France, tend to increased commercial value to wares, but artistic taste and skill alone would not make a nation industrial leadership. Industrial progress in so far as it consists in bringing the forces of nature to work gratuitously for the satisfaction of human wants, is largely the result of the activity of those nations whose talents find their proper field in mechanical invention and construction." Prof. B. Moses, J. of Polit. Eco. Vol. VI.

CHART No. 15

NUMBERS of PATENTS APPLIED AND GRANTED.



THE
LIBRARY OF THE
MUSEUM OF NATURAL HISTORY
AND
ZOOLOGY
OF THE
SMITHSONIAN INSTITUTION
WASHINGTON, D. C.

1881

1881

1881

All of these evidences point toward the fourth stage of the industrial progress of Japan.

In spite of the progress made toward mechanical invention during the last decade, Japan is still importing annually 100 million yen's worth of machinery of various kinds; she has been putting forward every effort to equip her machine shops, but is not destined to make great progress in the near future, not because the Japanese have no constructive talent but because the demand for every kind of machine is limited, both at home and in China. Here is the principal reason, why we ^{stated on} ~~forwarded in the~~ previous occasion, that ~~the~~ importation of machinery into Japan must continue for some time ~~yet~~ to come. But even ^{if} this is admitted, we can not agree with Professor Moses, when he said, in 1897, that "A nation without more mechanical talent than Japan has thus far displayed, relying on other nations for its mechanical constructions, is likely in the course of time to be obliged to use inferior machinery, ... as compared with those nations whose ^{generous} ~~generous~~ for invention leads them constantly to make improvement in their mechanical appliances." ¹ For so far as machine shops and industries that employ machinery for production remain in the hand of different concerns, it must be their advantage to make offers independently to foreign buyers. The machine shops can never suspend their operation even for an hour, to the benefit of their neighboring cotton mills, when they could sell their machines to others. If, therefore, the Japanese captain of industry could only be alert enough, they would easily overcome the difficulties

1) Journal of Political Science Vol. VI.^p

arising from the lack of machine shops at home. Under the present
 circumstances, it may be said, for the time being, it is ^{an} economy
 for Japan, to spend her ingenuity in adopting Western machines,
 rather than to devote it for new invention. It was adoption
 and not imitation that Japan has been endeavoring ever since
 she got access to the machine of the West. "It is a great
 mistake to look upon the Japanese as a nation of imitators. Their
 most important quality of mind is adoption. They are students
 of applied ~~mechanics~~ industry and the things they purchase must
 adopted to their wants, to the habits, and characteristic of their
 people while of the best modern style."

Section 6.

Low Business Ethics.

In the discussion of obstacles of the commercial
 progress of Japan, one thing that should not be left out from our
 investigation is ^{low} ~~their~~ business ethics. Japanese merchants have
 been most severely criticised by the world; whether or not they
 really deserved such public condemnation, has been discussed by
 both natives and foreigners. But unfortunately, so far as my own
 investigation concerns, all those pros and cons arguments are
 either biased or ^{low} ~~fragmental~~. Hence to employ this opportunity
 to reveal the causes which led to the severe criticism, and to see
 the national effort to promote the status of their merchants,
 should be an appropriate undertaking.

The first excuse that is made in defending the low
 business morality by natives and foreigners is, that the effect of
 the ~~caste~~ system existed in old feudalism, that the Sumurai's class
 at the head and which was the only class that appreciated honor
 1) Monthly Consular Report, December, 1906

and responsibility. It was true that so called despised commercial transactions and money matters were left to the merchants class. But it is not true that all merchants were dishonest. There were many creditable business concerns, to whom both central and local governments entrusted their financial affairs. From them the governments bought all necessities. They knew that honesty was the best policy, and to be called a creditable or reliable concern was the best advertisement of their business. Therefore, the dishonor of the Japanese merchants lies else-where.

Indeed, it was ^{the} thoroughly organized and highly trusted concerns that suffered most at the sudden change, ~~to adjust themselves to the new situation.~~ Some of them perished, others were slow to reorganize their traditional system of business transaction and only very few could be benefitted by the abrupt disorganization of commerce. In other words, the most trust-worthy concerns were unfitted to grasp the new opportunity, because the sudden change of their system meant to them a perilous result. Thus they were unable to uphold their honor as traders and to display it at timely opportunity.

On the other hand, petty unreliable money-hunting merchants ^{had} rushed into the field of gains. They were not legitimate traders, but "gamblers" of trade: they flocked into the treaty ports, and there they opened business relations with the foreign merchants, or they were employed as "Banto", - intermediaries between foreign merchants and native business houses. All the merchants of the country knew that they are not trustworthy, how then could we expect the resident foreigners to accept them as honorable merchants or reliable bantos? But they were the only

class of people that foreigners could deal with,- here lies the root of the world's cry for dishonesty of the Japanese merchants.

The third consideration is the native interpreters. They were composed of the same class of people, as that of banto. They awaited the coming of foreign tourists to profit themselves not only from the legitimate payment for their service, but by compelling native merchants to pay unreasonable amount of commission, for their services, in patronizing them to sell their goods to foreigners. In this way hundreds of innocent native merchants won the name of disgrace from foreign visitors.

In the third place, foreign business houses must share a proper portion as originators and teachers of dishonesty in business transaction. Mr. Buyei, Nakano, the President of the Tokyo Chamber of Commerce testified that " In export transactions foreign merchants would often obtain delivery of the whole consignment, and after a few days, declare the contract annulled, on some pretext or other, thus making these transactions almost unbearable to the Japanese merchants." The shrewd native merchants followed their examples in the transaction of importing goods, through those foreign merchants who taught them how to deal with the situation.

The fourth cause is credited to the employment of Chinese compradors or more properly called interpreters, by resident foreign merchants. No doubt they were a useful instrumentality, in the promotion of the foreign commerce of Japan, but at the same time, a detriment to the honor of the legitimate Japanese traders as much as these Chinese were lovers of profit.

- 1) Fifty Years of New Japan, page 624, Vol. II.
- 2) Journal of Society of Art, March, 1869.

The fifth and more recent cause is the consideration put forth by closer observers, that the ^{native} merchants are gradually winning the greater share of foreign trade; in 1883 their share was only 14 percent of total export, and 5 percent of total import; at present, they handle 40 percent of export and 60 percent of import. (see the chart No. 16) In other words the Japanese foreign trade has been changing from passive to active stage. It has lead to the fact that some of the petty foreign commission houses in Japan have been obliged to quit Japan, because they were unable to get a lion's share of profit in dealing with Japanese foreign trade, in competition with the native merchants. And it is natural for them to express rather unfavorable opinions against the Japanese merchants, their rival and winner of the competition.

The so-called lowness of business ethics when examined closely, is in no sense an inherent characteristics of all the Japanese traders, but only a product of an excessive period of transition. Business morality is rapidly improving, many nobles are now leaders of commercial concerns, many leading business men have been awarded decorations and ennobled. They are sending out the ministers of Finance, and Commerce and Agriculture from their very class. Old reliable stores have become adjusted to the Western system of transaction. The Banto's class is rapidly losing its positions, and the dishonest interpreters are being displaced by upright ones, guaranteed by the Japanese Welcome Society of Tokyo.

The recent rapid expansion of foreign trade, made through the efforts of native concerns, must be a good evidence to prove the success of their endeavor to regain the commercial honor of Japan.

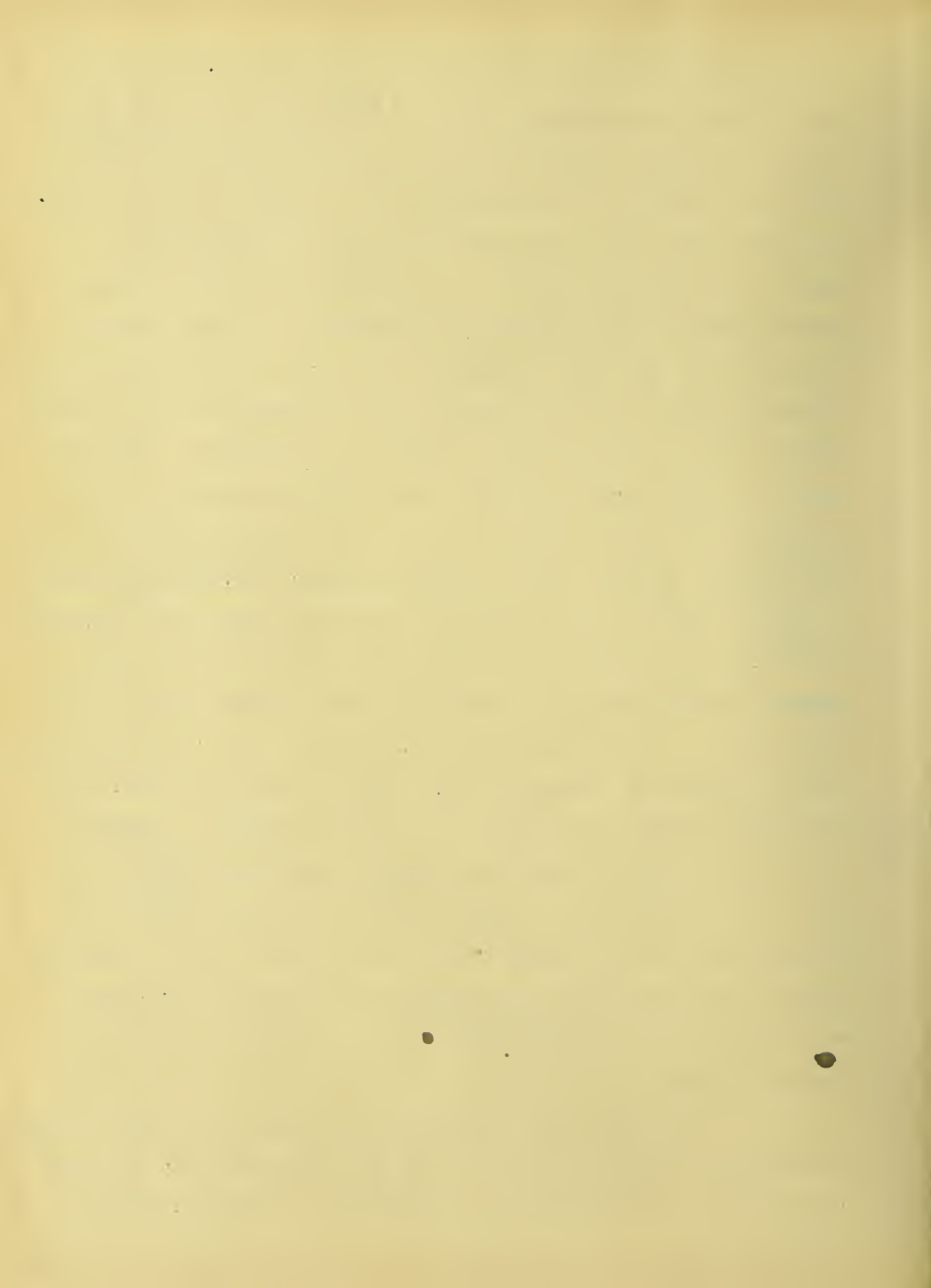
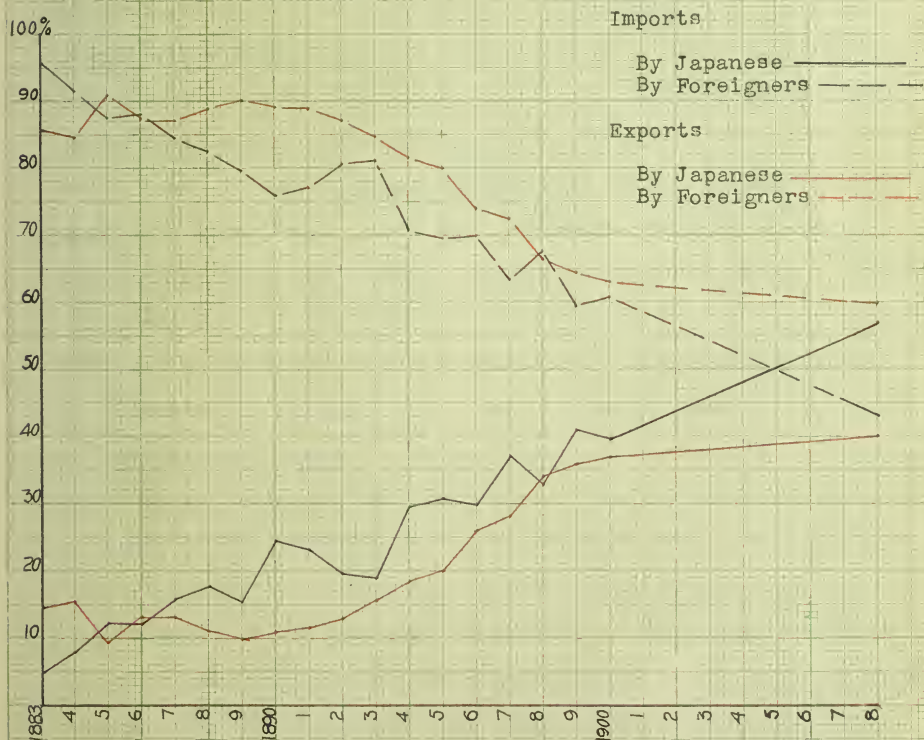


CHART No. 16

SHARES of FOREIGN TRADE of JAPAN CONDUCTED by
FOREIGN AND JAPANESE MERCHANTS.

"Much of the foreign trade of Japanese merchants is being done with Eastern countries, but the returns show that they are also making large gains in the West." U.S. Consular Report reprinted in "Commercial Japan" Statistic Bureau, 1904

Information after 1900 is unobtainable from the available materials; the percentage of 1909 is from "Full Recognition of Japan" page 389



CHAPTER IV.

CHARACTERISTICS OF JAPANESE COMMERCE .

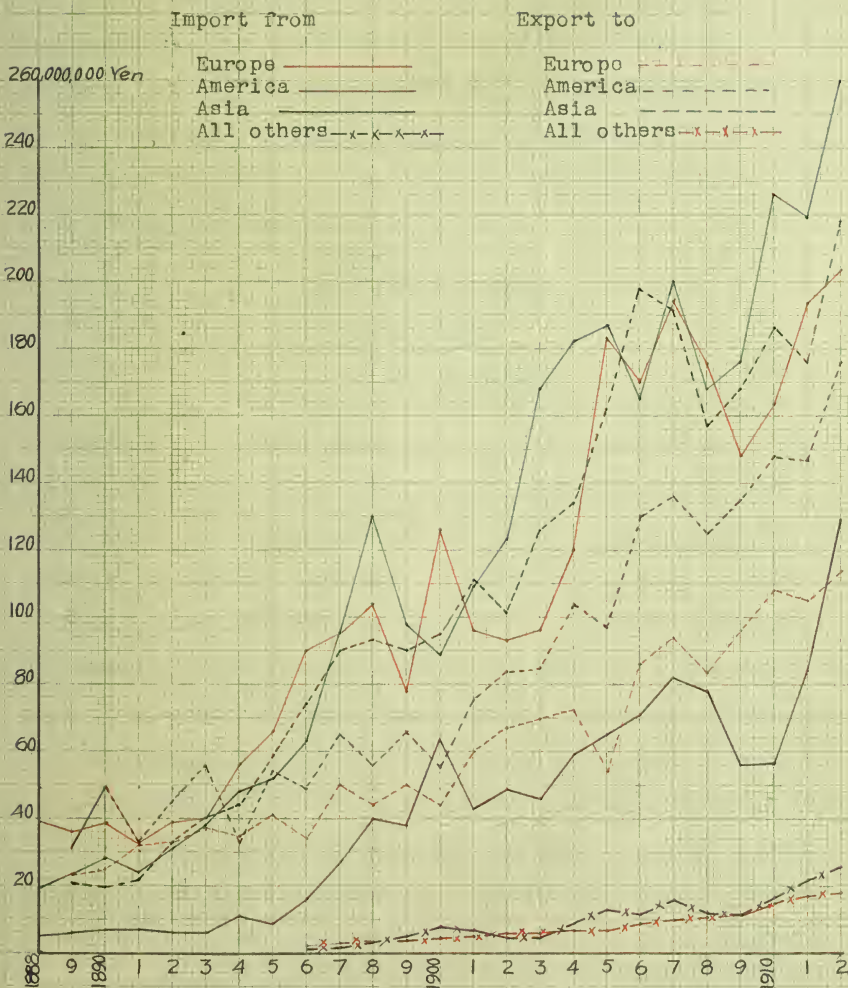
Section 1.

Geographical Distribution.

A glance at the chart No. 17 will show the importance of Japanese commerce with the Eastern countries. Japan buys foodstuffs and raw materials mostly from India and China, and in turn sells them her manufactures. The balance of trade with them is, in general, slightly against Japan. The next striking feature is the vast amount of imports from Europe, - mostly from England and Germany, compared with the exports to Europe. Japan sells them, - to the Europe, about one half of the amount of her purchases from them. The best customer of Japan is America, and America means to Japanese commerce the United States. Up to the present time, the balance due to Japan from the United States was paid to Europe. This is due to the American consumption of Japanese raw silk, and the small amount of American manufactures in the Oriental trade. Since 1910, however, a decided change has been brought about in this relation. The increasing purchases by Japan of American raw cotton in the past few years is remarkable. They rose from 17 million yen in 1910 to 65 million yen in 1912: this changed the former trade relation. The Japanese cotton industry will demand more American products as the manufacturing advances and the opening of the Panama Canal offers cheaper transportation rates. In the very near future, the exports of Japan to the United States will at least equal, if not exceed, the imports from the United States. Hence it will follow, that

CHART No. 17

GEOGRAPHICAL DISTRIBUTION OF FOREIGN TRADE.



Japan must seek some other markets for her exports. If she is able to succeed in such an undertaking, then the geographical distribution of her foreign trade must be changed, and if any change of the trade relation is to take place, it must be with Asia, - the change will be dependent upon the industrial development at home; upon this, the future of Japanese commerce depends. Hence to discuss the characteristics of the Japanese commerce, it is necessary to reveal the past development, present condition, and future tendency of the Japanese industry in general; this we will take up in the following section.

Section 2.

Industry of Japan.

a-- Agriculture.

The total area of arable land in Japan is only about 16 percent (or 13,150,000 acres) of the total area of the country¹ this small percentage is due to the roughness of the land. On the other hand about 60 percent of the total population (53,000,000) constitutes farming community of the Empire.² This fact shows without comment the size of the farms; fifty-five percent of the agricultural families, cultivates less than two acres each; thirty percent of them cultivates two to three and three-quarter acres; the remaining³ fifteen percent possesses three and three-quarter acres or more. Moreover this small acreage consists of little pieces of land scattered here and there, and presents a great variety agricultural industry. This small size of the farm and the numbers of the farming population will at once suggest at

1) see the diagram No. 1.

2) Japan in the Beginning of the 20th. Century, page 113

3) Science, New Series, Vol. XX., Page 313

once suggests the most intensive cultivation and the necessity of obtaining as many crops from each plot, per year, as possible. Indeed, one third of the total tillable area is¹ utilized for the cultivation of two staple crops a year.

The productiveness of land is very different in different localities; for example from eighteen to forty bushels of rice per acre. " It is believed that the productiveness of land has been decreasing since the tenth century, and that ' while the entire area devoted to crops has doubled during that time, the crop itself has increased only about one half!²

Japan has been and still is an agricultural nation in spite of her little arable land and her fifty-five millions of people. Indeed, Japan is a farming country, but as we have seen in various connections, the nation has been short of food, for these twenty-five years. To regain the productiveness of the soil, various kinds of fertilizers were imported, and to supply the immediate necessity of the people, foodstuffs were imported, from abroad. The amount of these purchases in the last ten years reached the surprising sum of one billion yen, as shown in the chart No. 18 .

The annual production of rice and wheat increased in an appreciable degree in the last twenty years, (see the chart No. 12) as the result of the unreserved use of fertilizers,³ the addition⁴ of the new areas for cultivation, and the application of the

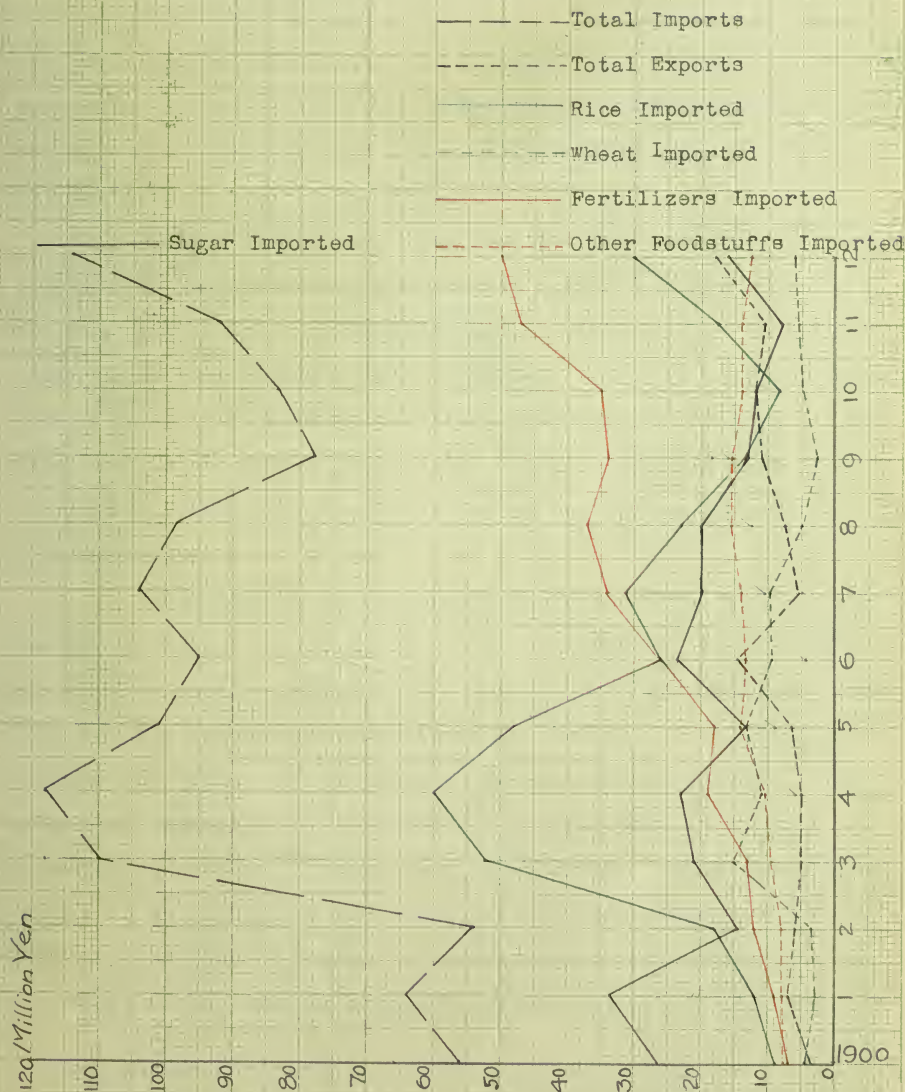
1) Unvailed East, page 36

2) Industrial transition of Japan, page 36

3) Total of native and imported fertilizers used in 1912 was valued at \$ 104,425,093. Dairy Consular Report (U.S.) 1913 January, 9
See for the amount of fertilizers imported on the chart No since 1900.

4) Reclaimed area, since 1893 is about 750,000 acres.-Japan at the Beginning of the 20th. Century, page 104 and the ~~Annual~~ Financial and Economic Annual of Japan, XIII, page 46.

IMPORTS AND EXPORTS of FOODSTUFFS
and FERTILIZERS.



advanced science of agriculture. The chart No. shows the great annual fluctuations of rice crops; the extreme cases are 160 million bushels of 1897 and 260 million in 1909. This great fluctuations is due to natural causes,- such as typhoon, too scanty or too abundant rainfall, and destruction by insects. However the science of agriculture may advance, we can not admit the possibility of the prevention of the damages due to the natural environment, and hence, we may safely conclude, that Japan will never be able to become a self-sufficient agricultural nation.

But still we must consider the fact that more than thirty millions of people are engaged in this extractive industry, and if the staple crop of food alone constituted their total remuneration, Japan would long ago have been reduced to a most wretched condition. Such a result was foreseen by native scholars and statesmen of new Japan, and to avoid such an out-come, other occupations were encouraged. Among them sericulture and tea industries are the prominent ones.

Peculiar as it may seem, Japan now of the foremost silk producing nations of the world, at the beginning of the new era, she did not produce enough silk even for home consumption. In 1872, for the first time, sericulture as a science was introduced through the medium of the World's Fair at Vienna, Austria.¹ The government laboratory was erected, silk worms were freed from diseases, and a model filature was established. Silk production rose from the insignificant amount of 2500,000 pounds in 1879 to more than 28,000,000 pounds in 1912 (exclusive of waste silk), and the value of the product exported was 200 million yen, constituting

about two third of the total exports for latter year.

This side-line of the Japanese farmers has grown in importance by reason of the increasing world's consumption of silk and the recent rapid improvement in the production as shown on the chart No. 19 . The second branch of this class of industry is that of tea cultivation but unlike the case of silk and in spite of the popularity of Japan tea, and the improvements made in the method of production, and of marketing, the industry is a declining one, from the stand point of the foreign trade. In the last twenty years preceding 1912, although the value of exports increased from 8 million yen to 13,500,000 yen; the volume decreased from 50 million to 38 million pounds.¹ This result is of course due to the development of the tea industry in Ceylon and India. To compete, in America and elsewhere, with this British Indian products became impossible owing to the increased cost of production in Japan,² - due to the rise of the wages of the laborers.³

This decline of export is to be regretted if it is viewed from the stand point of the tea industry itself, but from the stand point of the national industry in general, the case is different. For, if we accept the official view of the cause of this decline of export,³ - namely increased cost of production, then it may be said that in Japan there are other industries which would employ land, capital, and labor more profitably than tea cultivation.

1) See the chart No. 11.

2) Japan at the beginning of the 20th. Century. page 157

3) ibid

CHART No. 19.

EXPORTATION and PRODUCTION of
RAW SILK in QUANTITY.
(exclusive of waste silk)

Special Notice
is to be paid to the rapidly
increased production of silk
since 1905, and decreasing acreage of the
mulberry farm.

— Production
- - - Exportation
— Mulberry Farm (in cho.)

22 Million Kin.

17 450 Thousand Cho.

15 400

13 350

11 300

9 250

7 200

5 150

3 100

2 50

1874

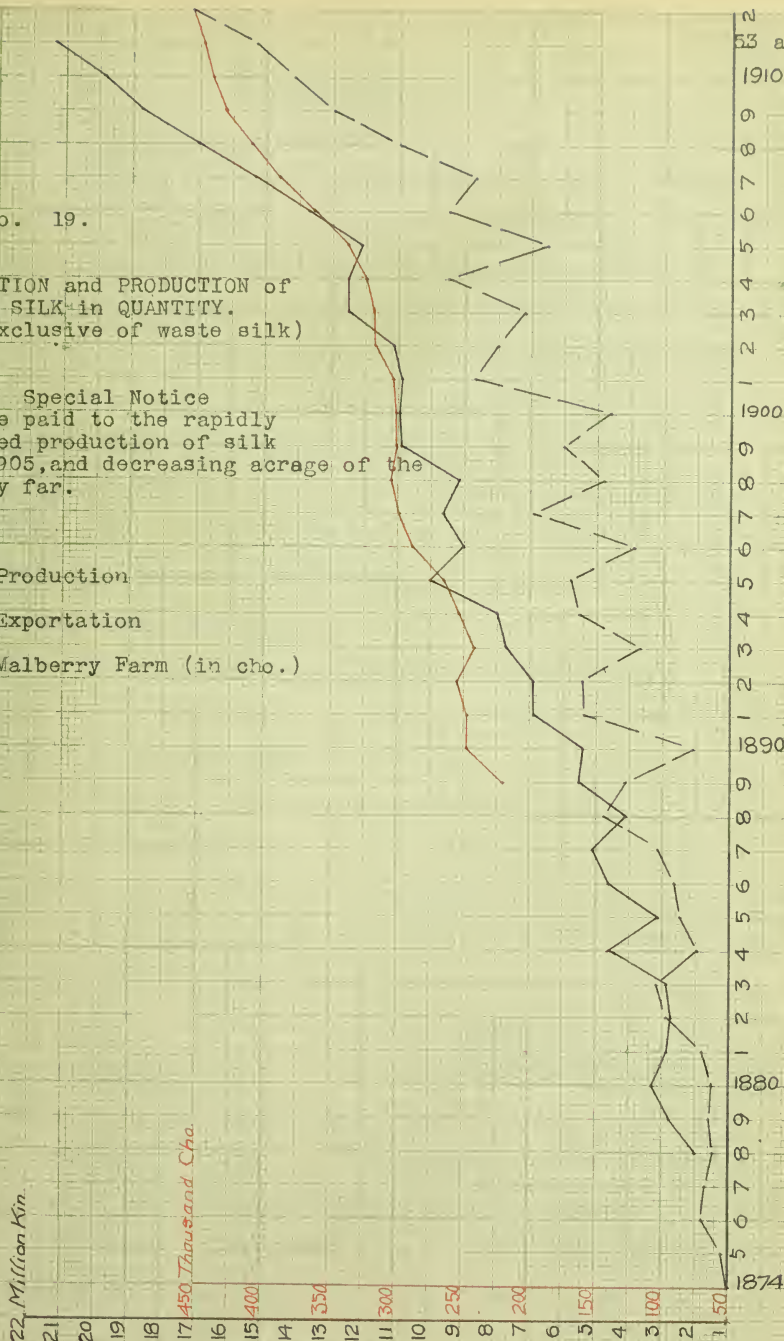
1880

1890

1900

1910

53 a



Section 2b.

Forestry.

Forestry in Japan has not been developed to such an extent as to be considered an independent industry, but is engaged in here and there by farmers owning lands which has on it a natural growth of trees. Almost sixty percent of the total land area of Japan is covered by forest. The practical advantage of having such a large area devoted to the growth of trees, was recognized by wise rulers and statesmen in various ages from ancient time down to the feudal period, and great care was taken to preserve them. But during the years of transition to the new Empire, the government neglected the protection of the forests, and the result was very injurious to the country. The nation however, was soon forced to recognize the necessity of proper protection, and the science of forestry is now applied under efficient administration all over the woody-land.

The value of the forest products, in 1911, according to the official estimate amounted to 139 million yen, and forestry was regarded as one of the most prospective industries of the future. In spite of the great area and the efforts advanced toward scientific management, the product never grew to be an important item of export, because of home consumption, - Japan prefers charcoal stoves for heating, and wood as fuel for cooking, the construction of houses, ^{to} which wood adapted itself most readily to the types in which the Japanese excel. Yet the preservation of forests involves a more important consideration, - prevention of flood and denudation of soil. The forest as a source of water, navigation would be profited little, but for water power it must play an

important roles in the development of industry and transportation. Besides these well known functions of the forest, in case of Japan there are two more important considerations. One is its aesthetic value, - the influence of natural environment on artistic taste and intellectual development on one hand, and on the other, the natural beauty as an inducement to foreign tourist. The former consideration has been one of the most important factors in the production of artistic goods, in which Japan is renowned in the world's markets. The latter will invite the inflow of specie into the country which is quite necessary to counterbalance the excess on importation. The second is its economic value, - namely, the dependence of the coast-wise fishing industry upon the river currents. Deforestation dries up rivers and the loss of the river currents means the destruction of the fishing industry. The development and welfare of the fishing industry, just like that of agriculture in Japan, is an important consideration in relation to her foreign trade. For the decline of this industry will not only check exportation of its products, but also must cause the imports of some sorts of animal food from out-side.

Section 2c.

Fishing.

Agriculture, forestry, and fishing are each in close relation and interdependent in some respect or other. If agriculture is regarded as the most most important of the three, the latter two may be said to be subsidiary to the first. A hard and fast line can not be drawn in the marking the division of the people engaging in these lines of vocation. This is specially true in Japan where forest owners are usually farmers and where

the fisher-men are farmers also. In 1908 the men engaged exclusively in fishing industry were 810,000 and those who are partly employed 930,000. In this respect, Professor Porter says that since 1903, their numbers have decreased 121,000 and expresses his regret of this result, crediting the decrease of number to the scanty reward, and little or no improvement, in the interest of fishermen. But he disregarded the fact of the economic advantage when more fish are caught by fewer men having greater capital. He must admit that the improvement lies in this fact in order to avoid any pessimistic view.¹

The physiographical condition of the country, - its hilly-ness tends to cause the people to settle near the sea, From the earliest time down to the present, Japan has been dependent on the waters for her staple animal food, and the large portion of mineral food, - salt. Centuries ago the Japanese developed the fishing industry of the country, to a very high degree,² but not contented with this they have within our time, superimposed upon and adopted to their own well-nigh perfect fisheries, all that is best and most useful in those of other nations, so that today fishing with Japanese is more than a mere industry, it is almost a fine art.³

1) Full Recognition of Japan. page 287

2) Hon. Smith National Geographical Magazine Vol. XV-XVI 1904

3) ibid, - Estimated annual products of fishery of England is 500,000 tons, of the United States, 1000,000 tons, of Japan 3000,000 tons.

But in fact, Japan deserves this highly regarded comment only in the case of coast-wise fishery. There is yet a greater possibility of developing the deep-sea fishery. Modern methods and the employment of sea worthy ships are encouraged by the government, and the people are now beginning to be interested but capital is still hesitating, owing to some what venturesomeness of the industry and the presence of more attractive fields of investment. Annual production and its relation to export trade may be seen in the chart No. 20.

Section 2d.

Mining of Japan.

Through out the history of human activity, mine products of one sort or another have occupied a prominent place. It is not erroneous to assume that mining is a great factor in the progress of an industrial and commercial nation of the future. Hence we must have a place for the mining industry of Japan, before we come to the discussion of the modern manufacturing development of the empire.

By the end of 1911, there were about 9800 mines in Japan proper, and they occupied an area of over 2000,000 acres.¹ The value of the product in the same year reached 105,360,000 yen,² 60 percent of which was shared by coal and 25 percent by copper. The progress of the mining industry and the annual volume of the principal mineral products are shown on the chart No. 21. Among the seven chief minerals of Japan, sulphur and copper are abundant,³ and already constitute export items. Though the output of silver

1) "Financial and Economic Annals" page 57-61

2) *ibid.*

3) In 1912, export of sulphur amounted 1745,000 and copper 25,000, 000. yen,-

CHART No. 20

PRODUCTION and
EXPORTS of FISHERY
and MARINE INDUSTRY.
(exclusive of salt)

- Total Amount
— Fishes (Caught)
--- Marine products
--- Exported Value

110, Million Yen

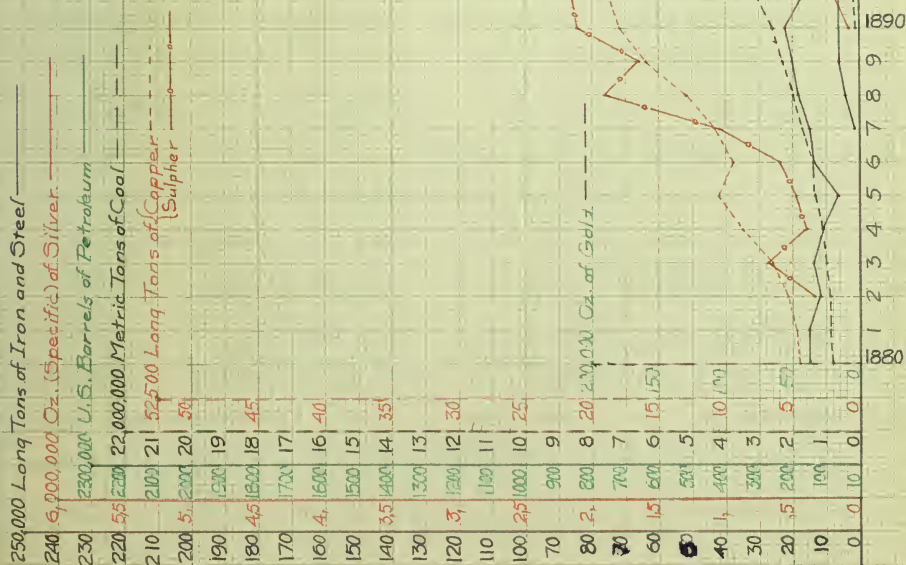
1900

1894

1910

CHART No. 21

MINING INDUSTRY of JAPAN.



and gold is increasing in quantity, the general conviction is that Japan contrary to the common belief, of the former times has not been ~~and~~ will not be a gold producing country. Hence we should withdraw ourselves from the consideration of these precious metals, by reason of their scantiness and their relatively unimportance as a direct means of developing modern manufacturing industry.

The three remaining minerals, iron, coal and petroleum must each have its reserved place for discussion; so we shall consider them separately and some what in detail. One thing that is always regreted by the industrial leaders of new Japan, is the fact that there are no iron mines of any considerable deposit, although there is an abundance of rich iron sand. The foundry work of the country is a quite recent development, dating back to 1896, and was started as a government industry. By the time of establishing Muroran foundry, the United States Consul General at Yokohama reported the following quotation as an opinion of a prominent iron interest, that " My strong impression is that the iron ore resources of this country are quite inadequate for such development as she is planing. I believe that I am safe in saying that the new steel plant at Muroran will be dependent on foreign sources for its ore, even more than the present plant at Wakamatsu, which draws over eighty percent from China. Kamaishi smelts has practically all its own ore with an annual out-put of pig of about 40,000 tons. I really do not know to what extent the Kamaishi out-put of ore may be increased, but judging from ~~what~~ all I can hear the deposit has definit limitations, and is probably doing about all now it can be hoped to do. Numbers of "contact deposits" known to exist in Rikuchu Province is evidently the

largest known and most accessible; the type of the deposit is at best erratic and unreliable."¹

This prediction concerning to the prosperity of the Muroran Foundry was correct, so far as the result ,up to the present time,is concerned. ¹The total annual out-put of iron and steel of Japan at present is less than seventy million tons,or two million yen and half in its value. The consumption of iron and steel,in their various forms,runs up to nearly sixty million yen in 1912.² Japan must develop her iron foundry work, and Japan has no available iron ore mines. This industry is as if dead locked,but the dependence of the government foundry at Wakamatsu and Muroran shops upon the Chinese ores is not the sign of a pessimistic future for the Japanese iron industry. For, the tendency both past and present,in selecting the location for the making of iron and steel in the United States,and elsewhere,has been to carry iron ores to coal mines,because of the saving of transportation costs. The ~~T~~ransportation charges of ores from Lake Superior mines to blast furnaces at Pittsburg,or even to the lake points must not be appreciably less ,perhaps more than the same item from the Yangtze of China to Wakamatsu or Muroran. Even disregarding the fact of the carrying of the Chinese ores across the Pacific, a healthy development of iron and steel

1) Monthly Consular Report (U.S.) July 1908

2) see the chart No. 22,

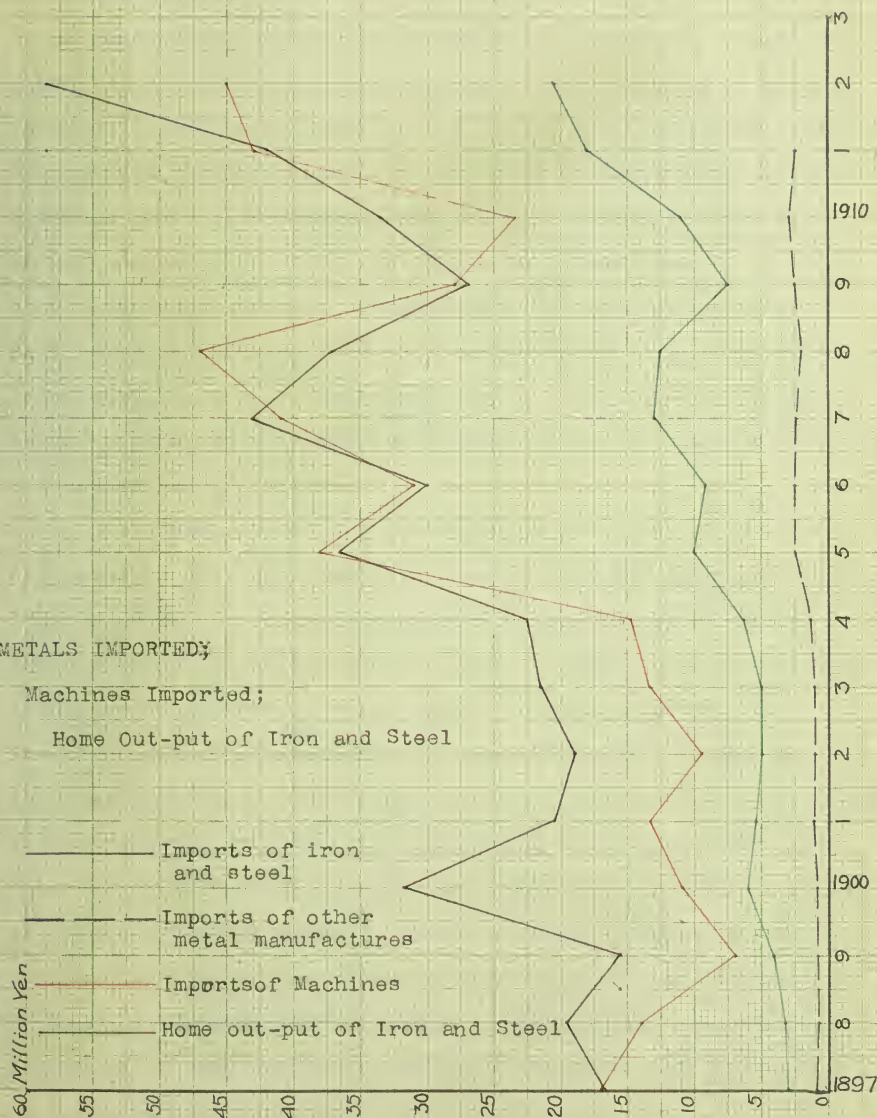
3) The contract was made in 1910,between a steel company operating on the Pacific coast of the United States,and the Ta Yen iron mines on the Yangtze Kiang River,to take annually for the next five years 36,000 tons of pig iron and 36,000 tons of iron ore, both to be made into finished products.- "Industrial and Commercial geography" Russel Smith,page 354

CHART No. 22

METALS IMPORTED;

Machines Imported;

Home Out-put of Iron and Steel



industry in Japan must result. The abundance of coal, the advancement in skill of the workers and the managing ability of the entrepreneur will forward the progress. It may in the way of employing profitably the abundant home deposits of iron ~~or~~ sand for production, the industry in the Empire will be revolutionized. At any rate the efforts of the nation along these lines must be rewarded and it is ~~perhaps~~ hoped that the supply at some date before long will be sufficient for home consumption. In accordance with consideration of minerals as factor of the modern manufacturing industry, coal as a motive power, is perhaps, more important than iron. Fortunately, coal is found every where in Japan. The deposits are of all varieties, peat lignite, bituminous, anthracite and graphite.

According to the government statistics, the total estimated area of coal deposit is about 1150,000 acres, of which 176,000 acres are actually employed in the process of annual production of 18,000,000 tons of coal.¹ Next to coal, petroleum should be considered, for its demand increased surprisingly. The present annual consumption is about 3500,000 barrels, valued at 25 million yen. This large amount is used not only for lighting and heating, but also for protecting cultivated areas from the ravages of insects. About one half of the recent consumption is supplied by home mines. If the rate of progress is kept up it will not be long before the home out-put becomes sufficient to meet the demand of the country. A remarkable progress has been made in the Kerosene - refining industry, and home product is in no sense, inferior to that of America.²

1) "Financial and Economic Annals" page 57
 2) U.S. Monthly Consular Report 1908, page 116

Section 2e.

Manufacturing Industry.

In the preceding discussion, we have seen the past, the present and the future of agriculture, forestry, ~~and~~ fishing and mining. But none of these industries promises indendently to perform any important office in the further economic progress of new Japan. If they should aid in building a new industrial and commercial power in the far East, it would be in an indirect way and as a supplement to manufacturing and trade. The future expansion of the Japanese trade is wholly dependent upon the development of the machine industry at home; we must give sepcial attention to its improvemnt.

The industrial revolution in modern Europe was the out-come of a gradual evolution of both intellect and science, whereas in modern Japan the sudden political and social revolution compelled the producers to adopt new methods of production in a short period of time. The change in the consumption of manufactured goods demanded the industrial revolution in Japan. B A new class of consumers with widely different tastes had been suddenly called into existence. They asked for the thing about ¹ which the native producers knew nothing, and were unable to supply. Cheap cotton and woolen goods were thrown upon the market by ² foreign merchants; native looms suspended production. The government had no power to save home industries from this disaster, since the nation adopved the policy of free trade upon the insistance of treaty powers. The industrial revolution had to be

1) S Okuma, No American Review. Nov. 1900

2) Rein "Industry in Japap" page 381

brought about at once; the new situation demanded it. The general craze of the people for every thing European, caused the throwing out of the skilled artisans from their domestic work shops. Under such circumstances the nation could hardly appreciate the value of a free trade policy such as that advanced by Professor Roscher that a nation in possession of political independence, should adopt in order to stimulate internal development and thereby increase commerce ~~and~~ with out side world, for " such freedom will cause the influences of the incentives, wants and means of satisfaction of higher civilization to be felt soonest in that country."¹

The theory here advanced by Professor Roscher has been well proved in Japan, but it is a dangerous policy for a nation to adopt it without regarding the economic development of the country. For a nation may demand new things, and her standard of civilization ^{be} may ^{be} lifted up, and at the same time, she may be reduced to a position economically dependent on the out-side world. This economic dependence may result in the loss of her political independence, which may mean the destruction of the happiness and the welfare of the nation. Hence, if a nation like Japan, adopted the free trade policy, it should be willing to sacrifice its immediate interest for the benefit of the future generation; every sacrifice must be made by the nation to promote the national industry and commerce, at least in proportion to the demand for new foreign goods and the advancement of the standard of living.

1) Roscher, "Political Economy" page 435 Vol. II

Fortunately for new Japan, both the government and the people were conscious of the requirement of the time. Satisfied with their new lots, the displaced skilled artisans went to work to bring about the industrial revolution. Yet, there was no adequate system of transportation, no available capital, no knowledge of modern machine production. For twenty years they made little or no progress, and up to 1888, Japan continued to buy manufactures from abroad. From that year to the end of 1896, she bought machines to the amount of fifty million yen and in addition to this constructed a large quantity of them for herself from foreign¹ models. Thus three decades were consumed by the nation, with much sacrifice and patience, to lay a firm foundation for the future development of its industry. The statesmen and industrial leaders of those days of new Japan should receive due admiration for their efforts in bringing about the revolution in the methods of production, in spite of the unfavorable economic environment, scantiness of raw materials, and laborers wholly unacquainted with machinery.

During the next eight years from 1896 to 1904, the importation of machinery into Japan amounted approximately to one hundred million yen; and the iron and steel, imported in their various forms, was about one hundred and seventy million yen. Capital invested in the industrial undertakings of the corporate form rose from one hundred million yen in 1896 to two hundred million yen in 1904. The annual consumption of coal advanced from four to nine million tons in the same period. These give a fair index to the industrial progress made up to 1904, and it may be regarded as the third stage of the manufacturing expansion. In

In the next ^{eight} years from 1905 to 1912, the country made marvelous strides. During this period, the importation of machine amounted to three hundred million yen; the annual consumption of coal went up from nine to more than fifteen million tons; invested capital rose from less than two hundred to more than seven hundred million yen. This fourth stage of progress is still in its course of advancement, as shown on the charts No. 23. and 24.

The manufactures of the country naturally fall into two main groups, namely the improvement made to the native industry, and the adoption of some of the Western industries, new to the country. The former includes such as silk and cotton woven goods, Japanese paper, porcelain and earthen wares, matting laquered wares, ¹ straw-braids, and other artistic goods. The latter ² embraces matches, knitting wares, sugar-refining, European ³ towels, ⁴ brushes, ⁵ button, ⁶ soaps, woolens, ⁷ parasoles, lamps, European papers, celluloid, cement, window-glass, rubbers, imitation leathers, and lastly to the surprise of the West, the linnen manufactures. Linnen⁸ is bought from Ireland and made into collars and cuffs, embroidered table cloth etc., and senting back to the Western ⁹ markets, - largely to the United States.

7) U.S. Monthly Consular Report Feb. 1907

6) Export in 1912 was about 60,000 yen mostly to Europe and U.S.

1) Japan is now supplying the home market and exporting to Oriental countries to the amount of 12 million yen

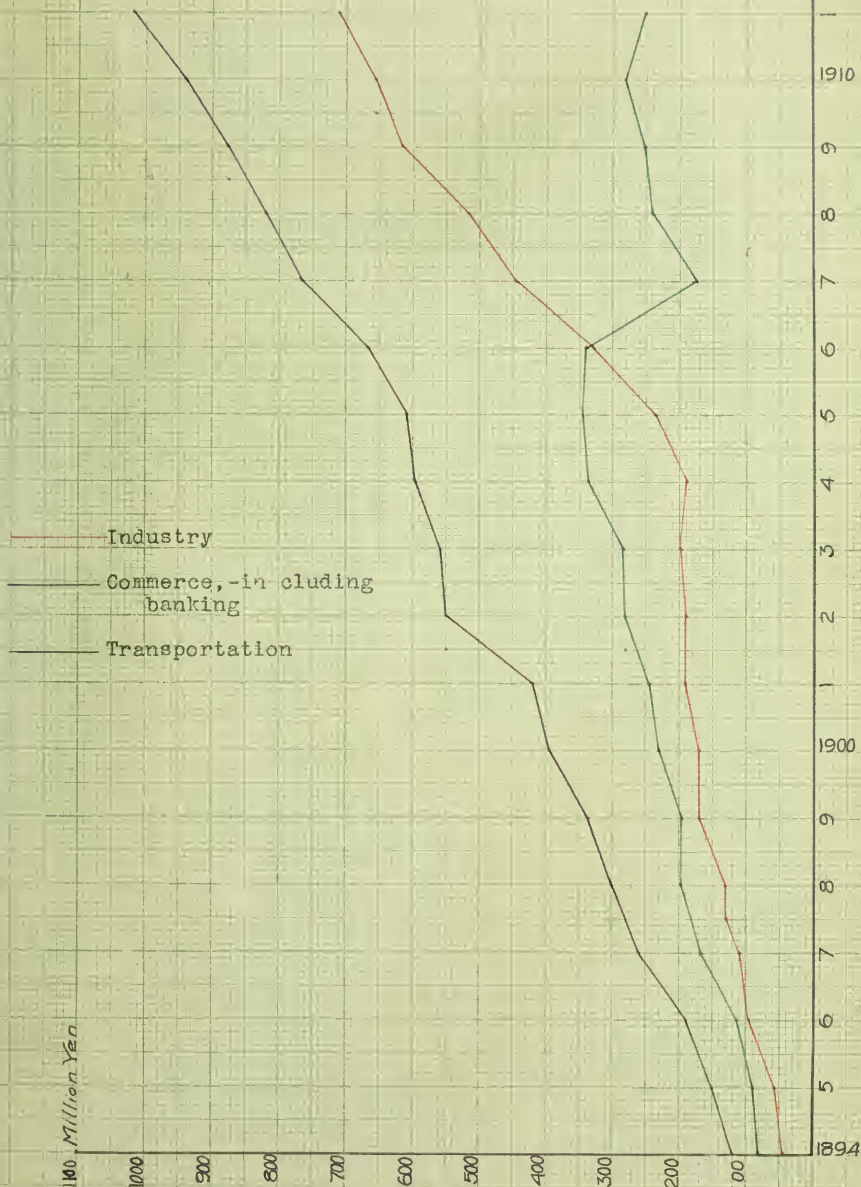
2) In Japan a special machine has been invented by manufacturers. at the price of one German machine, five or six Japanese-made machines can be purchased, while Japanese machine turns out about twice the quantity of work produced by German machines, - namely, a little over eight one quater pounds a day, against four one eighth pounds. As to the knitting, a Japanese can produce three times the quantity produced by an Indian. The only drawback of Japanese work is that it is inferior in quality when compared with that produced by German machines" - U.S. Monthly Consular Report, March, 1909. The amount of export was 7,360,000 yen in 1912.

3) Almost all refining is done at home and the amount of export of refined sugar in 1912 was 8477,000 yen

4) Amount of export in 1912 was 2160,000 yen

5) Export of toothbrushes alone amounted in 1912 1,000,000 yen, to U.S.

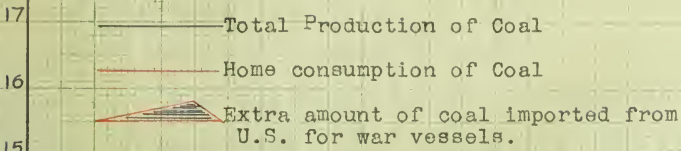
CHART No. 23 AMOUNT OF CAPITAL AND RESEVES OF LEADING ENTERPRISES. (in form of corporations)



18,000,000 Long Tons of Coal

CHART No. 24

HOME CONSUMPTION AND EXPORTS OF COAL.



The difference between home consumption and total out-put is the volume exported.

1886 7 8 9 1890 1 2 3 4 5 6 7 8 9 1900 1 2 3 4 5 6 7 8 9 1901

Further enumeration of these two groups of industries is shown in the charts No8.25, 26,27.

Section 3.

Classification of Exports and Imports.¹

The outcome of the investigation, made hereto-fore, concerning various features of all industries, would lead us to the formation of a pretty definite idea of the commercial development in accordance with the internal economic development of Japan. But for the sake of ~~a~~ clear understanding, let us venture to classify the exports and imports of the Empire.

The production of foodstuffs is increasing, through big annual importations of fertilizers to the amount of fifty million yen. Notwithstanding of this increase Japan is unable to feed her population, at present, nor will she be able to do so in the future. Her annual importation of foodstuffs amounts to about fifty million yen,² (see the charts No. 18),

1) Imports of Fertilizers.

Oil cakes...from.....	British India.....	1,000,000 yen
	.....China.....	26,000,000
Chemical fertilizers..from.....	United States & Germany(?).....	22,000,000

2) Imports of Foodstuffs.

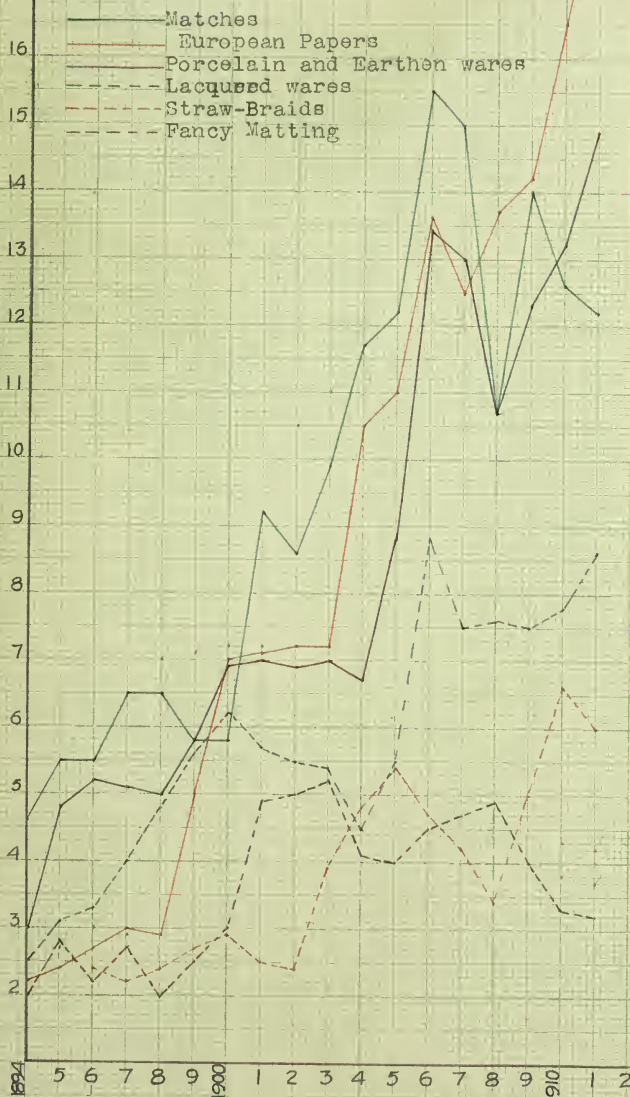
Rice.....from.....	British India.....	18,000,000
	.....French-Indo-China....	8,000,000
	.....Siam.....	3,000,000
Beans.....from.....	China.....	8,000,000
Wheat.....from.....	United States.....	1,500,000
Sugar.....from.....	Dutch-Indies.....	14,000,000
	.....Philippines.....	1,000,000

The production of silk and its amount of exportation are rapidly increasing. The exportation of raw silk alone reached 160 million yen in 1912. (see the chart No. 19)

19 Million Yen

CHART No. 25

VALUE of OUT&PUT of SOME OF CHIEF
MANUFACTURES



180 1900 Spindles CHART No. 26

AMOUNT OF RAW and GINNED COYON
REQUIRED in the SPINING MILLS, and
PRODUCTION of YARN; Number of SPINDLES.

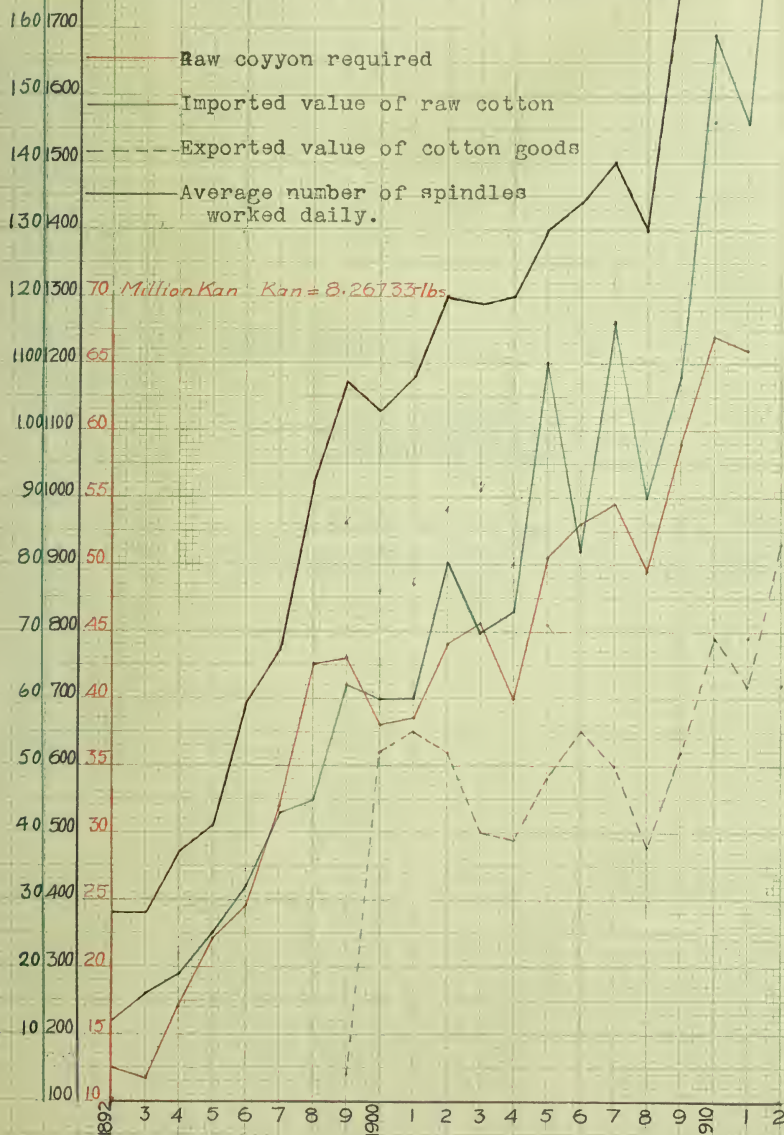


CHART No. 27

950 Thousand

900

850

800

750

700

650

600

550

500

450

400

350

MANUFACTURE of WOVEN GOODS.

- - - Hand looms (numbers of)
 — Machine looms (numbers of)
 — Value of out-put (in yen)

Note the marked decrease of the numbers of hand looms and increase in value of production, by introduction of machine looms in the recent years.

300 Million Yen

250

200

150

100

50

1890

1

2

3

4

5

6

7

8

9

1900

1

2

3

4

5

6

7

8

9

1910

1

2

The Important Buyers of Japanese Silk.

The United States.....	115,000,000 yen
France.....	18,000,000
Italy.....	14,000,000
Russia.....	2,500,000

The tea industry is recovering from its decline, when viewed from the standpoint of home demand. As an exporting item, it never regained, nor can hardly expect to regain its former position. The present amount of export is about fourteen million yen. (see the chart No. 11)

The Chief Buyers of Japanese Tea.

The United States.....	12,000,000 yen
British America.....	1,000,000

Forestry is quite an important industry at home, and contributes materially to the development of the other national industries, but its place is an insignificant one from the standpoint of foreign trade. Its present amount of export is less than three million yen. It consists of boards, mostly used for the packing of tea, and railway ties. The latter goes to China and the United States, and the former to the United States. The camphor exported is valued at about three million yen and goes to Europe and the United States.

The fishery and marine industry have occupied a prominent place in the home markets, but their share in the foreign trade is just beginning to develop. The annual amount of export is about ten million yen. (see the chart No. 20)

The chief buyer of fish and sea weeds of Japan is of course China; fish oil is sold to European countries to the amount of two million yen.

The products of mining industry may treated separately. There is no iron ore mine of any importance; Japan is importing ores from China, and iron and steel in their various forms from other countries to the amount of 60 million yen annually. (see the chart No. 22.

Japan's Purchases of Iron from,

Great Britain.....	12,500,000 yen
Germany.....	10,000,000
The United States.....	9,500,000
Belgium.....	3,500,000

The petroleum industry has been developing very rapidly, but the out-put is supplying only one half of the home demand. The annual importation of oil amounts to about 13 million yen. (see the chart No. 21.

Japan's Imports of Petroleum from,

Dutch Indies.....	4,000,000 yen
The United States.....	9,000,000

Coal is abundant in the country, and the annual out-put reached 18 million tons in 1911. The value of exportation is about 20 million yen, the volume being about 3 million tons. (see the charts No. 24.

The Chief Buyers of Japanese Coal

China.....	7,000,000 yen
Hongkong.....	5,000,000
Streight Settlements..	3,000,000
Philippines.....	2,000,000

Sulpher is abundant, but the total amount of export is less than two million yen. (see the chart No. 21)

Copper is also mined abundantly; its out-put reached 53,000 tons in 1912, and the exported amount was 25 million yen. (see the chart No. 21)

The Chief Buyers of Japanese Copper.

Great Britain.....	5,000,000 yen
China.....	5,000,000
France.....	4,000,000
The United States.....	4,000,000
Hongkong.....	3,500,000
Germany.....	2,000,000

The output of silver was about 5 million ounces, and the production of gold 170 thousand ounces in 1911. Japan is far from being a gold and silver producing country. (see the chart No. 21)

The development of the manufacturing industry may be observed in the following table,-

	1900	1911
Amount of capital invested in the corporate form of industrial organization.....	160,000,000 yen	700,000,000 yen
Consumption of coal.....	5,000,000 tons	15,000,000 tons
Exportation of Manufactured.....	17,000,000 yen	200,000,000 yen

The Main Manufactures and The Chief Buyers are,

Manufactured Silk

- a) Silk Tissues.....27,000,000 yen
- b) Silk Handkerchiefs.....4,000,000

To.. Germany.....	8,000,000
Great Britain...	6,000,000
British India...	6,000,000
The United States	4,500,000
Austria.....	2,000,000

Porcelain and Earthenware.....5,500,000

To.. United States...2,500,000

Cotton Goods

- a) Yarns.....54,000,000
- b) Knittings.....7,000,000
- c) Towels.....2,000,000

To..China.....	50,000,000
Hongkong.....	6,000,000
British India....	4,000,000

Straw and Wood-chip Braids.....17,000,000 yen

To.. United States.....6,000,000
 Great Britain.....5,000,000
 Germany.....2,500,000
 France.....2,500,000

Mats and Mattings.....4,000,000

To..United States.....3,000,000

Matches.....12,000,000

To..China.....6,000,000
 Hongkong.....3,000,000
 British India.....2,000,000

European style umbrellars and parasols are sent to Oriental countries to the amount of 1500,000 yen; lacquer wares to Europe and America about 1000,000 yen; refined sugar to China about 8500,000 yen.

To manufacture some of the articles,above enumerated, and for goods for home consumption,Japan imports the following raw materials.

Importation of Raw Materials.

Indigo..... from Germany.....2,000,000 yen

Raw Cotton.....200,000,000
 from British India.....108,000,000
 United States.....85,000,000
 China.....19,000,000
 Egypt.....5,000,000
 French-Indo-China.....2,000,000

Flax,Hemp,Jute,and China-grass.....7,000,000

from Philippines.....4,000,000
 China.....2,000,000
 British India.....1,000,000

Wool.....13,000,000

from Australia.....8,000,000
 Great Britian.....7,000,000

Japan's Principal Imports of Manufactured Goods.

Sole leather.....	from United States.....	1,000,000 yen
Cotton Goods....	from Great Britain.....	6,000,000
Woolen Cloth.....	.....	7,000,000
	from Great Britain.....	5,000,000
	" Germany.....	1,000,000
Printing Paper.....	.....	3,000,000
	from Great Britain.....	1,000,000
	" Germany.....	1,000,000
Railway Rolling Stock.....	.....	4,000,000
	from Germany.....	1,500,000
	" United States.....	1,000,000
Steam Boilers & Engines...	from Great Britain.....	1,500,000

If the above statement of imports and exports is summarized, the following result is obtained:

Exports and Imports of Japan.

Exports

Agricultural Products...	70,000,000 yen	.....	210,000,000 yen
Manufactures.....	70,000,000 "	.....	200,000,000
Marine Products.....	25,000,000, "	.....	60,000,000
Mine Products.....	35,000,000 "	.....	50,000,000
Miscellaneous.....	4,000,000 "	.....	10,000,000

Imports.

Raw Cotton.....	60,000,000, "	.....	200,000,000
Manufactured Cotton.....	25,000,000 "	.....	10,000,000
Raw Wool.....	4,000,000 "	.....	16,000,000
Woolens.....	16,000,000 "	.....	17,000,000
Metals and Machinery....	48,000,000 "	.....	120,000,000
Foodstuffs and			
Fertilizers.....	56,000,000 "	.....	114,000,000
Miscellaneous.....	83,000,000 "	.....	142,000,000

Special attention should be paid to the rapidly increasing imports of raw cotton, and the reduction in the amount of importing cotton goods in the past ten years. The former tendency is due to the rapid progress of the Japanese cotton industry and ~~its exportation~~ ^{to increased} exports of cotton goods amounted 82,888,000 yen

in 1912. The latter is due to the gradual supplanting of coarse foreign cotton goods by native manufactures; and at present, only finer grade is still being imported, in the production of which, in spite of improvements, Japan is still behind British manufacturers.

The following charts would be valuable for further investigation in the study of exports and imports of Japan.

CHART No. 28

CLASSIFICATION OF EXPORTS

320,000,000 Yen

— Agricultural Products
 — Manufactures
 - - - Mine Products
 - - - Marine Products
 — Miscellaneous

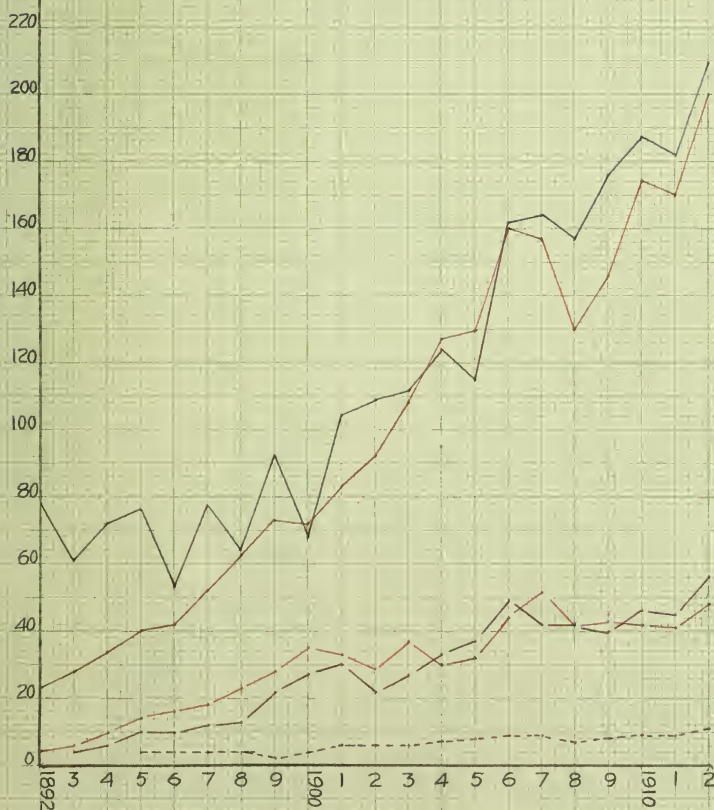
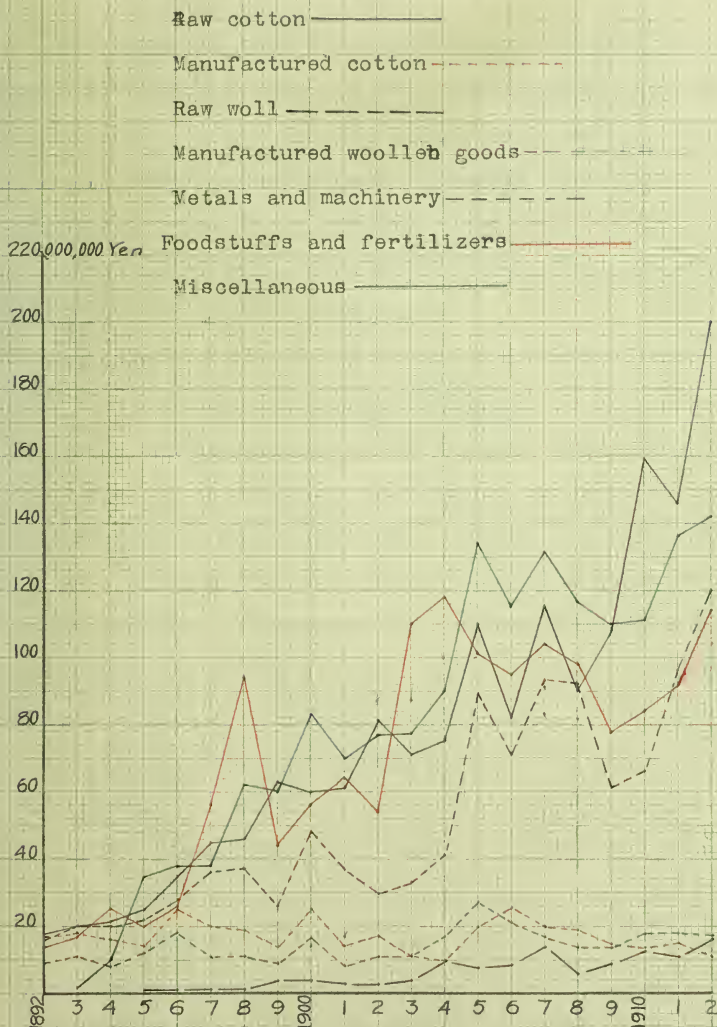


CHART NO. 29

IMPORTS OF JAPAN.



Chapter VI

SUMMARY AND CONCLUSION.

We may now venture a summary and an out-look upon the future.

The value of foreign trade increased from 20 million yen in 1868, to 1100 million yen in 1912. The progress was made three successive periods: the first, the period of internal adjustment and preparation for future expansion, running from 1868 to 1893; the second, the period of initiation in new undertakings which covers the ten years following 1893; the third, which runs from 1903 to the present, the period of expansion.

The balance of trade during the last twenty years has been decidedly "unfavorable" to Japan, the excess of imports over exports in this period aggregating 800 million yen. But this "over-importation" was due to internal improvements and capital investments for the promotion of home industries. Hence it should not be regarded as a bad omen for the national economic development.

The progress of Japanese foreign trade thus far has not been merely a phenomenal growth of temporary character. The expansion is a natural result of the enterprising spirit, of the nation, shown in the activities preceding the adoption of the "close door" policy in 1641. The fear of foreign invasion is the only excuse for the seclusion which lasted about 200 years. During this period, the spirit of adventure and enterprise was confined artificially within the narrow limits of the islands. The spirit thus suppressed by conventional laws and orders could not help but rush outward when it was released in 1868, and quickly produced a wonderful expansion of foreign trade and of general business activity in spite of the scantiness of natural resources.

The development of the foreign trade is the outward expression of the improved condition of the internal commerce and industry. Japan adopted the gold standard in 1896: for more than fifteen years she had been successfully operating her centralized system of banking; railway mileage increased from 2000 miles in 1893 to 6000 miles in 1912; the vessel tonnage of Japan increased from 420,000 in 1893 to 2250,000 in 1912, rising from the eleventh place in 1904 to sixth in 1908 among the world commercial sea powers. All sorts of help to commercial and industrial interests has been offered by the Japanese Government, and paternalism has been expanded almost to the point of communism. The mint, the post, the telephone, the telegraph, camphor, salt, tobacco and railways are monopolized by the government. The government factories are engaging in the production of no less than thirteen different kinds of goods. The Imperial Household and the government owns more than one half of the total forest land of Japan employing it commercially. The former shares also in the financial, industrial, and shipping enterprises, while the government dictates the financial policy of the banks of the nation, - a "money-trust", in the American sense, being unknown in Japan.

Under pressing necessity Japan began in 1898 to cast off the last vestiges of national prejudice against foreign institutions, and since then ^{successful} attempts have been made ~~successfully~~ by both the government and ^{the} private financiers to invite foreign capital into the country. Agriculture has been gradually recovering from the blows incidentally brought upon ^{it} ~~them~~ by the disadvantageous tariff, the change in the standard of money, and the scantiness of capital in the country. The lack of raw materials is not so much a draw back to the industrial development of Japan, so long as the working people are acquiring skill and efficiency. The objectionable features of

Japanese business ethics have not been inherent characteristics, but products of the transitional period through which the nation has been passing. Their business morality is rapidly improving and foreign commerce is gradually changing from a passive to an active stage, - more than one half of her imports and exports now being carried by Japanese merchants.

Japanese exports ~~are~~ consist of agricultural products, such as silk, tea, etc., manufactures of cotton, silk, straw braids, matches, etc., and marine and mining products. Her imports are mainly raw and manufactured cotton and wool, foodstuffs, metals and machinery.

The noteworthy characteristics of Japan's ~~trade~~ trade are her increasing purchases of raw materials, machines and foodstuffs, on one hand, and her rapidly increasing exports of raw silk and various manufactures on the other.

Japan buys annually 200 million yen's worth of machines and manufactured goods from Europe and sells ~~into~~ into Europe Japanese products to the amount of about 100 million yen. Silk, tea and other commodities are sold to America, to an annual amount of about 180 million yen, while Japan buys from the United States 130 million yen of raw cotton, iron and steel, petroleum, etc.. The manufactures of Japan find their market in the Oriental countries to the extent of 220 million yen, and she takes from them 250 million yen of raw cotton, foodstuffs, fertilizers, and other raw materials.

This summary of the preceding discussion leads us to venture a prediction concerning future expansion of Japanese commerce and industry. If Japan is to continue to ~~make the~~ progress, she must have an increasing importation of raw materials, machinery and foodstuffs, and a greater exportation of general manufactures, raw silk and miscellaneous artistic goods. To fulfil this expectation, the

development of the manufacturing industry at home, and the building up ^{of} mercantile marine are the two most important requisites.

Japan is in possession of sufficient sources of motive power in her coal fields and water falls to meet the need of a much greater industrial development. Her leaders are of the opinion that the nation still lacks skill to manipulate intricate machinery, and to engineer great industrial enterprises. To overcome these defects the government and the people are striving to the utmost, even to an extent that in some cases, threatens to ~~be~~ deaden the individual initiative of the younger generation. Efforts to hasten progress must of course be made but if the senior leaders of present Japan apply the principle of paternalism too far they may encounter the serious obstacle, which is likely to arrest or, at least, to hinder greatly the nation's future industrial and commercial progress. Hence the government must keep a watch and preserve an unbiased policy.

Being an island empire Japan is favored in building up a greater and better commercial fleet, than she possesses at present. In increasing her strength, the nation will derive an inestimable stimulus from her geographical situation on the Pacific. Manila may not be expected, under normal conditions, to develop into a first class trading port; for ^{the} establishment of factories of importance ^{there} is far from practicable, owing to its torrid climate, and its lack of a substantial hinterland. As an intermedially port for China, Japan and Korea, its distance is too far, and fuel too expensive. Nearness to Manchurian and Siberian markets may favor ^{at} Dulney to a certain extent, but so long as, Eastern Siberia and Northern Manchuria

remain more densely populated than Souther Manchuria, Dalney will remain a second class trading port. Although Hongkong may continue to be a chief entrepot for European trade, its situation upon an isolated island does not allow its sphere of trade to extend beyond the neighborhood of Canton. For this reason Hongkong is not suited to be a large mart for Pacific trade in the future. The situation of Shanghai is better than Hongkong because of the Yangtze Valley, but the shallowness of its harbor discounts its importance as an intermediary port and probably it will not achieve any greater importance than it has at present. Contrasted with these American and Chinese ports, in Japan, ports with superior advantages, the chief among them is the port of Kobe which is deep, and is not only unique as a distributing center for China, Korea and the South Sea Islands, but is also located in the neighborhood of Osaka, the manufacturing and distributing center of Japan.² As a commercial port, Kobe seems to have greater future than any other point on the Eastern shores of the Pacific.

The Japanese manufactures must make their way into the Oriental market. The struggle on the part of Japan is to be a desperate one, because of the already well established European trade relations in the East. The industrial nations of the West anticipate that Japanese competition will be fierce. But the wants of Asia must grow in variety and intensity, and though the amount of Japanese commerce^{may} grow annually, the workshops of Japan will never be able to supply the entire demand of ⁸⁰⁰ ~~five~~ millions of people.

2) T. Nakahashi, the president of the Osaka Shosen Kwaisha, Monthly Consular Report, Dec. 1905

The international division of labor must play an important part in the future commerce of the world. The Japanese competition may perhaps check the relative ratio of sales of European goods in the East, but their sales will surely be increased in absolute amount. The commercial nations of the West must admit the claim of Japan, on the markets of Asia, so far as Japan's advantages in proximity and in the similarity of race and customs are concerned.

The invasion of Japanese manufactures into the Western markets is too remote a probability to necessitate any discussion here. But there seems little doubt that commercial struggle of the coming generations will be on the Pacific. To take an active part in this ~~sphere~~ of trade, the younger Japan must qualify themselves to succeed the elders of the commercial and industrial Japan.

APPENDIX.

APPENDIX. A.

A Partial Explanation of the Theory of the Balance
of Trade.

The fundamental consideration in relation to the discussion of balance of trade is the amount of trade between nations having the same metallic standard and that of those countries having different metallic standards. The diagrams here presented, may be of assistance in this respect.

In figure No. 1,- the circles A. and A' represent two countries having the same standard of money, for example, silver. The line X.Y. shows the amount of trade when the value of silver is at a certain figure. The square B C D E designates the volume of trade under the assumed conditions. Now suppose there is a fall in the value of silver; the line X N may represent this falling value of silver, and the line X P the rising price of commodities. When the value of silver is ~~xxxxxxx~~ falling and the value of goods is rising, other factors remain the same, the fall of the value of silver must be proportional to the rise of price of commodities. Hence the value of foreign trade would increase greatly as is indicated by the dotted line O O', while volume of trade remains the same, as indicated by the square D'E' B C. For the increase in the amount of trade is not due to the increase in volume but rather to the advance in the price of commodities, resulting from the decline in the value of silver. One must keep in mind that under these circumstances, an actual decrease of trade in units may not show in the amount of trade when expressed in terms of money values, but that it may even appear as an increase.

This theory is also holds true, though inversely, in the case of an advance in the value of silver or gold.

In figure No. 2,- the countries A. and B. each has different standards of money, for example, gold, and silver. The line X Y designates the amount of trade when the ratio of gold and silver is equal. The rectangle A B C D, shows the volume of trade under the conditions assumed. Now suppose that silver declines in value as compared with gold. The line X M shows the decline of silver in relation to gold, while the line Y M' the corresponding rise of gold in relation to silver. The line Y A' shows the rise of value of the goods imported into the country having silver standard. The line X D' shows the decline of value of the goods exported from the silver standard country into gold standard land. These two changes in the value of imported and exported commodities must be the same in degree when other factors remain same. If the above supposition is true, then the line X'Y' must be equal to the line X Y, since the degree of rising value of importation would be equal to the falling value of exportation, the total amount of transaction remaining unchanged. Hence it necessarily follows that the volume of trade shown by A B C D must be equal to the rectangle A'B'C'D'. Under these circumstances, a silver standard nation must put a strenuous effort in producing and marketing commodities in order to keep up the balance of trade ~~in~~ expressed in terms of money, in its favor where as if it had the gold standard, such efforts could be diverted into other lines for the benefit of the nation.

The foreign trade of Japan with silver countries, up to 1895 shows a nearly equal balance in many instances, and what differences of balance existed during this period were due to the

trade with gold standard countries. Therefore, in discussing the balance of trade of Japan the principle brought out by the second diagram must be consulted.





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